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ROYAL COMMISSION
ON
TRANSPORTATION

EVIDENCE HEARD ON

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Professor H.A. Innis

ROYAL COMMISSION ON TRANSPORTATION

Ottawa, Ont.
Thursday, March 16, 1950

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ROYAL COMMISSION ON TRANSPORTATION

OTTAWA, ONTARIO
THURSDAY
MARCH 16, 1950.

THE HONOURABLE W.F.A. TURGEON, K.C., LL.D. - CHAIRMAN
HAROLD ADMAS INNIS - COMMISSIONER
HENRY FORBES ANGUS - COMMISSIONER

G.R. Hunter
Secretary

P.L. Belcourt
Asst. Secretary

COUNSEL APPEARING:-

F.M. Covert, K.C.	}	Royal Commission on Transportation
G.C. Desmarais, K.C.		
H.E. O'Donnell, K.C.	}	Canadian National Railways
H.C. Friel, K.C.		
F.C.S. Evans, K.C.	}	Canadian Pacific Railway
I.D. Sinclair		
C.D. Shepard	)	Province of Manitoba
M.A. MacPherson, K.C.	}	Province of Saskatchewan
F.C. Cronkite, K.C.		
J.J. Frawley, K.C.	)	Province of Alberta
F.D. Smith, K.C.	}	Province of Nova Scotia
		Transportation Commission
		of the Maritime Board of
		Trade.
J. Paul Barry	)	Province of New Brunswick
C.W. Brazier	)	Province of British Columbia
J.O.C. Campbell, K.C.	)	Province of Prince Edward Island.

Ottawa, Ontario
Thursday, March 16, 1950.

M O R N I N G S E S S I O N

--- The Commission resumed at 10.30 a.m.

THE CHAIRMAN: All right, Mr. Sinclair.

MR. SINCLAIR: Before I resume my examination of Mr. Armstrong, there were three points in yesterday's proceedings about which questions were asked that I should like to deal with first. At page 18183 of volume 96 of the transcript Dr. Innis asked whether there had been any breakdown between wages and salaries, and I said I thought there was some evidence of that in the rate cases. Mr. Evans then made some reference to an exhibit that was filed in the 20% case which did not show a breakdown between wages and salaries but between organized and non-organized employees. Of course some of the organized employees are on salaries. I think though that the exhibit might be put into the record. It is Exhibit No. 49-193 in the 20% case. I have not had an opportunity to have copies run off, but I am having that done and as soon as they are ready I will file it as an exhibit.

COMMISSIONER INNIS: . Does that include the C.N?

MR. SINCLAIR: No, this is the Canadian Pacific alone.

COMMISSIONER INNIS: The C.N. has never filed any such exhibit?

MR. FRIEL: We have no similar breakdown that I know of although I could obtain that information.

COMMISSIONER INNIS: Could you? It would be interesting if we could get it all.

MR. SINCLAIR: Point number two arose at page

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2. The second part of the report is devoted to a description of the work done during the year.

3. The third part of the report is devoted to a description of the work done during the year.

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25. The twenty-fifth part of the report is devoted to a description of the work done during the year.

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27. The twenty-seventh part of the report is devoted to a description of the work done during the year.

28. The twenty-eighth part of the report is devoted to a description of the work done during the year.

29. The twenty-ninth part of the report is devoted to a description of the work done during the year.

30. The thirtieth part of the report is devoted to a description of the work done during the year.

31. The thirty-first part of the report is devoted to a description of the work done during the year.

18198 of volume 96 of the transcript and goes on for the next page or so. It arose from a question by you, Mr. Chairman. The Chairman asked concerning the variations in the market price cash grain Winnipeg compared to Chicago. The only material that I have been able to put my finger on is the exhibit that we filed in this proceeding when Mr. Jefferson was on the stand. That is Exhibit 167, which was a graph. It showed from 1897 to 1948 the price of No. 1 northern at Fort William and at Minneapolis. It was shown by two lines on the graph. The red line demonstrated the American price and the black line the Canadian price. It showed the close relationship that Mr. Armstrong referred to for your yearly average prices, with the black line crossing the red line and showing a higher price at Fort William on odd occasions -

THE CHAIRMAN: Did you say on all occasions?

MR. SINCLAIR: On odd occasions, and the lines exactly the same at some occasions, and the American price going quite a bit above the Canadian price in the first world war when there was government control of Canadian wheat prices, and also in the last years when Canada has had these bulk buying contracts. Your question was directed to the open market.

THE CHAIRMAN: Does that cover such prices as at Galveston, for instance?

MR. SINCLAIR: No, this is only at Fort William and Minneapolis. Mr. MacPherson and I were to have a chat to see what we could do, and the figures that Mr. MacPherson had available were not comparable, but he is going into the situation. I think that he and I will be able to confer and get together on a price range at Galveston, Kansas City and Minneapolis.

MR. MACPHERSON: The figures that I had, Mr. Chairman, were in cases weighted, and would not offer the sort of comparison that would be proper. Speaking to Mr. Sinclair last night I suggested to him that perhaps over the weekend we could obtain the necessary information on all exchanges including Portland because Portland also enters into it. We will have that available within the next day or two, and we will agree on what the actual figures actually are.

MR. SINCLAIR: We will try to do it for Portland, gulf ports such as Galveston and Houston, and Minneapolis and Kansas City.

MR. MACPHERSON: And Chicago.

MR. SINCLAIR: And Chicago of course, and Portland. As to Portland that is dealing with intermountain white wheat. That is a special wheat and the price comparisons will not be the same, I do not think, as we will find in the other markets. The relationship between that white wheat is not quite the same as the relationship between winter and spring wheat. It is a special wheat.

The third point, my lord, was at page 18208 of volume 96 of the transcript, just at the close of yesterday's hearing. It had to do with you, sir, asking me a question as to how the present population compares in these two cases, meaning the population in the spring wheat states of the United States compared to the prairie provinces. I made reference to the fact that that was dealt with during Professor McDougall's evidence, and I would like to refer you to the appendix to part one where at pages 46, 47, 48 and 49 there are graphs and tables showing the population in the prairie provinces and also in the states of Montana, Wyoming, North Dakota,

South Dakota and Nebraska.

THE CHAIRMAN: What pages?

MR. SINCLAIR: Pages 46, 47, 48 and 49. Page 46 is a graph showing the prairie provinces and these spring wheat states expressed as a percentage of national totals. Then on the supporting table right next to the graph, page 47 of the appendix to part one, it shows the total prairie provinces' population at 2,357,000, and the five spring wheat states at 3,113,000. In both cases 1946 is estimated. Page 48 is a graph showing employees in manufacturing industries in the prairie provinces compared with the spring wheat states of the United States expressed as percentages of national totals, and at page 49 is the supporting table. In 1946 we find that the prairie provinces had 72,973 in manufacturing industry. As to the five spring wheat states 1947 is the closest figure we have for comparison, and it is a preliminary figure, and we find the number is 67,114.

COMMISSIONER INNIS: There is no indication as to the exact area covered by those states?

MR. SINCLAIR: You mean in acres?

COMMISSIONER INNIS: Yes.

MR. SINCLAIR: No.

COMMISSIONER INNIS: It does not mean much unless you have some comparison of that sort.

MR. SINCLAIR: I think that we felt was that the percentage of total population showing those engaged in the manufacturing industries out of the total population in one as compared to the other - we thought there was some indicative comparison there.

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P. C. ARMSTRONG, RECALLEDEXAMINATION BY MR. SINCLAIR(Cont'd):

Q. At the close of yesterday's proceedings, Mr. Armstrong, we had been discussing the general markets for wheat from the region that you described as region B, that is, the spring wheat states of the United States, and you had stated that some of it was being used for milling purposes to be used locally, and then you went on to state that there was less population engaged in the United States spring wheat states in non-agricultural pursuits than there was in the prairie provinces, and that brought forth the question from the Chairman that I have just dealt with. Would you tell me what the market for the remainder of the crop is in region B, generally speaking?

A. The remainder of the crop of region B, that is, of the states of North Dakota, South Dakota, Montana and Minnesota, after feed and seed and local milling have been deducted is largely consumed in the United States in the form of flour except for wheat milled for domestic use at Minneapolis and therefore moving through Minneapolis on high domestic rates, higher than export rates. This wheat moves chiefly to market by shipment ex Duluth and thence by inland water chiefly to Buffalo.

(Page 18215 follows)

General Instructions

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Page 1 of 1

Now, on this movement wheat from region B is charged rail freight rates far exceeding those prevailing in Canada, whether the wheat is for export or domestic use. This comparison has been very well illustrated in Exhibits with which I am sure everyone is now fairly familiar.

Q. Those exhibits are in our Appendix to Part I, and run from page 91 to page 94 of the Canadian Pacific Appendix to Part I. The brief of the Prairie Provinces, Mr. Armstrong, at page 29 describes the centre of gravity of wheat growing in the spring wheat states as probably only about 450 miles from Duluth, where the wheat finds water transportation, while the centre of gravity, it goes on to say, of wheat growing on our prairies -- that would be in Saskatchewan -- is probably 700 to 800 miles away from Fort William. Would you comment on that statement?

A. I must repeat at that point the statement made yesterday, that the average rail rate on spring wheat to Duluth from the spring wheat states may be taken as at least $38\frac{1}{2}\phi$ for a haul of 450 miles, while for a haul of 700 to 800 miles the average rate in Canada is 20ϕ . In both countries wheat from the west moving east by water is charged rail rates which are the same whether it be exported or milled for domestic use in the east. Of course, domestic rates on wheat for all rail movement to market from the spring wheat states and domestic rates for flour and mill feed from the spring wheat states for all rail movement will be much higher than the rates to Duluth for furtherance by water, and they will be proportionately much higher than similar rates in Canada. However, this is not important, because there is little all-rail movement. The major movement of wheat from the spring wheat states to market is via Duluth for furtherance by inland water.

Q. Would you describe the movement of wheat eastbound

from Duluth?

A. Wheat moving out of Duluth, and as a matter of fact from Chicago and other lake ports, whether it be winter wheat of region A or the spring wheat of region B, all that wheat moving east by water will after it reaches Buffalo be moved by the New York State Barge Canal to Albany and New York or by rail to New York, Baltimore and other Atlantic ports. This movement bears transportation charges fully comparable with those which are applied to the movement of Canadian wheat after it leaves Fort William.

THE CHAIRMAN: Q. Did you say comparable?

A. Comparable, fully comparable, sir. The inland water rate from Fort William to Montreal is about $21\text{-}1\frac{1}{3}\phi$. You will see 13ϕ per bushel -- I am saying everything in cents per hundred for clarity here -- and this compares with a water rate Duluth to Buffalo of 10ϕ per hundred, together with a rail rate from Buffalo to Baltimore of $18\frac{1}{2}\phi$.

MR SINCLAIR: Q. The rate from Buffalo, New York, to United States Atlantic ports is comparable to the Canadian from Bay ports to Saint John and Halifax; that is our at and east grain rate that we have discussed here. That is correct, is it not?

A. Yes. The rail rate from Buffalo to New York is 19ϕ , and that is the same as the rail rate prevailing from the so-called Georgian Bay ports to Saint John and Halifax, although the distance for the movement in Canada -- the two movements in Canada if you like, to Saint John and Halifax -- is respectively two and three times as great as the distance for the movement to New York from Buffalo. The rate from Buffalo to Baltimore, a matter of 396 miles, is $18\frac{1}{2}\phi$.

Q. That mileage, 396, is by the Pennsylvania Railroad route?

A. On the Pennsylvania route; and that is $18\frac{1}{2}\phi$, which

is a half cent less than the rate to New York, for reasons which concern the people of the United States.

Q. That is the big question of port differentials in the United States.

A. There is an argument there all the time about that. Thus there is no additional burden on wheat movement in Canada east of Fort William as compared with movement in the United States either for export or domestic markets east of Duluth, the Canadian railways absorbing the extra cost of the much longer haul to our Atlantic ports as compared with the haul to the United States Atlantic ports.

Q. I would now ask you to consider your third region, that is the region that you have described as region C, I think; that has also been described as the inter-mountain wheat area of the United States.

A. This region constitutes, for the purposes of my little study here, the States of Washington---

Q. That is Exhibit 210.

A. The States of Washington, Oregon and Idaho. It is an area of fairly uniform plant ecology, the growing conditions are fairly uniform throughout it, and agrarian economic conditions are substantially uniform. This area produced in 1947 91 million bushels of winter wheat and 34 million bushels of spring wheat, a total of 125 million bushels, amounting to 9 per cent of the United States crop in that area. The wheat from this area, the winter wheat at any rate, is a highly special type of soft wheat, known as Pacific white, and producing a very white flour. It is very much like the white wheat that is grown in Australia, the typical Australian wheat. It has certain special market values, and therefore its price is never dependably comparable with other grades of wheat.

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It is used as Australian wheat is used, to some extent for mixing with other wheats for milling purposes. A mere handful of Pacific white wheat milled with a bushel of perhaps our No.3 wheat will enormously whiten your resulting flour, and it is used in England, Australian wheat and this wheat too is used in England, and I believe it has even been used at Vancouver, although I speak subject to correction, for the purpose of blending with wheats of a harder type, better baking qualities, but a less attractive colour.

Q. You mean a lower grade of hard wheat?

A. Yes. Then it has another special demand, in that the oriental market for culinary reasons prefers white to even slightly gray flour, because of the fact that so much of the wheat which is consumed in the Orient is boiled and not baked -- it appears in the form of dumplings and noodles instead of in the form of bread -- and there is quite a strong feeling even among quite poor people in the Orient about the importance of getting very white wheat, so this has a special attraction there.

Q. Can you give the Commission some rates, rail rates, on the movement of wheat in this inter-mountain area?

A. May I say to the reporter that I am going to be quoting quite a few names of small places with which he may not be familiar, and I have asked Mr. Edsforth as fast as I quote them to write them down and hand them to him for his convenience. The brief of the Prairie Provinces has laid the greatest stress---

Q. That is at page 29 of their brief.

A. Has laid the greatest stress on the fact that this block of wheat, this inter-mountain wheat, is produced close to water.

THE CHAIRMAN: Q. You say the brief of the Prairie Provinces?

A. Yes, sir.

MR SINCLAIR: The brief of the three Prairie Provinces on the Crows Nest Rates, at page 29.

Q. Yes?

A. This is grown very close to water, and for that reason and because that reflects a misconception, I propose to give a specially careful analysis of the rail rates in that area.

From Port Hill, Idaho, 465 miles to Seattle, the rate is 45¢. For 512 miles, Port Hill to Portland, 45¢ again. These rates compare with a haul of 420 miles from Winnipeg to Fort William at 14¢, 465 to 512 miles for 45¢, 420 miles for 14¢. From Moscow, Idaho, 421 miles to Seattle, and 366 miles to Portland, 38¢. From Rathdrum, Idaho, 342 miles to Seattle, and 398 miles to Portland, 39¢.

Q. Now would you place on the record, Mr. Armstrong, some rates from points in the State of Washington to Seattle and Portland?

A. Yes. Washington is a seaboard state, and it would be there that the lowest rates on export movement might be expected. The lowest rate which I have been able to find from a wheat-growing area in that state is from Kennewick, Washington, 245 miles to Seattle, 227 miles to Portland; that rate is 26½¢. This is more than the rate from Edmonton or Calgary to Fort William.

Q. That is 26¢?

A. Yes. From Kennewick to Seattle is 245 miles; to Portland it is 227 miles.

MR MACPHERSON: Q. Might I ask, Mr. Armstrong, where this point is in the State of Washington?

A. I am afraid I would have to get a map to show you, sir.

Q. Because there is no wheat raised at all in north-western Washington.

A. This is a wheat shipping point. Special inquiries were made to obtain rates from points from which wheat was being shipped in quantity.

THE CHAIRMAN: Q. Mr. Armstrong, did you tell us the rate from Calgary to Fort William?

A. Calgary to Fort William is 26¢, the distance being 1,242 miles, as against 245 to 227 in the State of Washington.

Q. The same from Edmonton?

A. The distance from Edmonton is, I think, a little longer, but---

Q. What is the rate?

A. The same rate, sir, 26¢ to Fort William.

MR SINCLAIR: We will get the mileage.

COMMISSIONER INNIS: Q. You have not any comparable map with that of yesterday showing the districts A, B and C of Western Canada with the United States?

A. It would be, I am afraid, sir, a gigantic task. I think you would have to make it like a kaleidoscope, not to speak of a picture puzzle. It is really such a complex situation there that it cannot be reduced to the simple terms of our situation. They have not got two trans-continental railways, you see, serving the whole country; there is a patchwork there.

Q. You would have no idea as to the extent of the country from which at times wheat would be pulled to the Pacific, at times to the east?

A. That is almost, I believe, sir, negligible in the United States, because of the fact that there is between --

there is some; I am sorry, there is some from the spring wheat states. From further south it is most unusual. From the spring wheat states there is some pulled west. We can give you -- in fact, you have those exhibits covering our transcontinental rates. You have United States rates to Duluth as compared with rates to Seattle, just as we have Canadian rates to Fort William as compared with Vancouver, and that is all in the record there at the pages which Mr. Sinclair quoted a few moments ago.

(Page 18223 follows)

MR. SINCLAIR: The distance, Mr. Chairman, from Edmonton to Fort William, is 1,228 miles, I am instructed, a little shorter than the distance from Calgary to Fort William.

Q . Will you continue, Mr. Armstrong?

A. From Walla Walla, Washington, where wheat is grown and shipped, for 312 miles to Seattle, 241 miles to Portland, the rate is $28\frac{1}{2}$. From Ritzville, Washington, for 329 miles to Seattle, 312 miles to Portland, the rate is $34\frac{1}{2}\phi$. From Harrington, for a movement of 208 miles to Seattle, the rate is 38ϕ , and the rate is the same for this 462 miles to Portland; 208 miles 38ϕ . From Calgary to Vancouver, 642 miles, 20ϕ .

MR. FRAWLEY: Q. You said Ritzville was 329 miles - -

A. To Seattle.

Q. 329 miles to Seattle?

A. Yes; and 312 miles to Portland.

Q. And the rate was $34\frac{1}{2}\phi$?

A. Yes.

Q. And the next place is 208 miles to Seattle and the rate is 38ϕ ?

A. Yes. You will notice that sort of irregularity occurs throughout the picture of the United States rates due to conditions that I certainly do not always understand, but that is the way it is. It must be quite evident that even the close proximity of this wheat growing area to ; ports does not provide it with wheat freight rates anywhere comparable with those charged for the movement of wheat from Western Canada. As Mr. MacPherson has questioned whether these are good rates or not, I can only say that what we had to do in

order to get what we considered were illustrative rates, was to go to men engaged in transportation in the United States, authoritative persons, and ask them to give us samples of rates, giving them some indication of the sort of area from which we wanted them and the mileages which we should like to have. We have received them from them, and we have every reason to believe that they are correct in telling us that these are representative rates affecting the movement of wheat. They are only scattered samples of course. They were selected for that reason, that we thought and believed them to be representative. The only alternative that we would have would be to file complete grain rates of the United States railways, and I can assure you that that would be something which would not be very pleasing to any of us. Short of that, I believe the figures I have given you are the best available figures as to transportation charges on wheat movements in the United States.

MR. SINCLAIR: Q. Mr. Armstrong, why did you select the particular states shown on Exhibit 210?

A. As I said, I have covered 92½% of the United States crop in 1947 with these 18 states. I selected states with a total production of 20 million bushels a year or more. The other 7½%, as I said yesterday, is accounted for by scattered quantities from many other states. The whole list can be furnished at any time. It did not seem profitable to explore all these minor movements in detail. I think that this represents the major production and transportation of wheat in Canada.

Q. In the United States, you mean?

A. Yes, in the United States. The one exception

I should like to give is this. You will notice I have not said a thing about the State of Pennsylvania, although it appears there with 22 million bushels. There has got to be a limit. I do not know what happens to the wheat from the State of Pennsylvania, except that I think I can be positive in saying that little of it is exported. It is absorbed to the best of my knowledge - and I have been in Pennsylvania from time to time - chiefly in domestic consumption in that state. I offer as being somewhat comparable, and some of the wheat from some of the other states I have omitted could be considered as being comparable in economic effect to the 20 million to 30 million bushels of winter wheat which are grown annually in Canada and which do not enter into our export picture. That wheat gets absorbed into domestic milling in Ontario for soft wheat flour, very largely into feed, and generally disappears without seeming to affect the export market to any appreciable extent. I think the Pennsylvania wheat and much of the wheat from the smaller producing states which I have omitted in this study may be put off against Ontario as being a similar situation.

Q. In view of what you have said, Mr. Armstrong, what is the general conclusion that you feel can be drawn from this analysis of the export wheat growing areas of the United States?

A. I have tried to give a picture of the transportation factors in the United States wheat economy. The general statement which I should like to offer as a comparison is that the movement of the Western Canadian crop is for an average distance of 770 miles at an

average rate of 20¢ per hundred pounds.

Q. You want to set that figure against the various rates that you have quoted from these representative points in the three regions of the United States wheat growing economy?

A. To sum up, I am entirely willing to risk the reasoned opinion that on all movement of wheat, wheat flour and milled feeds in the United States, the prevailing rates will be at least twice as high as in Canada. To put this conclusion in other words, and I wish to be very careful how I make this statement, my opinion is that if we could take the entire freight earnings of all the United States railways on wheat flour and mill feeds, and divide this figure of the total volume of wheat sold off farms in the United States and shipped by rail - -

Q. You emphasized "sold off farms"?

A. Yes. I wished to stress that point, and also "shipped by rail". I wish to emphasize that point. If that were done, the resulting average rail transportation charge would, I believe, be at least twice as high as that now prevailing in Canada.

THE CHAIRMAN: What is the cause for the emphasis on "sold off farms"?

A. I am now coming to that point.

Q. Do it in your own way.

A. In justice to everyone, I felt that I should explain that it is extremely difficult to obtain figures and statistics to bear out my conclusion. I have done quite a bit of research in that direction and I have not been able to obtain a complete figure. I am very much

afraid that someone might waste time, as I have wasted time on this; and I thought I could save a lot of time to other students who might be able to carry this research further, and thereby give me very useful information, incidentally, by pointing out the only available figure I have is on page 49 of the statistics of railways in the United States, 1947.

MR. SINCLAIR:Q.That is the only available figure on United States movement and earnings?

A. In 1947; the year which I was analyzing; and that shows a total movement of approximately 43 million tons of wheat originating -that is an important word, "originating"- as compared with total freight revenue from all traffic, of slightly over \$212 million. If you fall into the trap and you extend that 43 million tons into bushels, you get 1400 million bushels; and if you divide that into \$212 million, you get an average of 15¢, and it looks as though my reasoned opinion had not been very well reasoned. But that is not the way you have to do it. In the first place, the earnings figure of \$212 million is inadequate, although not grossly inadequate. That happens to be the wheat earnings of Class I railways; and^a good many million dollars - not a significant amount - - but some millions of dollars - are won by Class II railways and are not reported in this form.

THE CHAIRMAN:Q.I think we were told the other day that Class I railways handle about 98% of the whole traffic?

A. Yes, quite. We found that in the case of wheat we might find another 5% or so to be added to this Class I

railway wheat revenue. But that is not my difficulty. The revenue is not too bad. If you will take \$215 million or \$220 million in 1947 as the wheat revenue of the United States railways, I think you would not be too far off.

Looking at the other thing and the 43 million tons which works out at 1400 million bushels, you will notice that I stressed the word "originating". "Originating" is a term to describe certain classes of freight, is used by the Interstate Commerce Commission under their definition as being freight which is being moved from a point on the railway in question, without a record of previous line haul.

Q. Of previous what?

A. Line haul; that is, if freight is shipped by railway "A" to a point over railway "B" and there is a through rate and a through bill of lading, railway "B" does not show that freight as originating on its line. It is shown as originating on the lines of railway "A". It has a record of previous line haul. But when the movement is interrupted by the issue of a new way bill, by a stop-over - that is not in transit over, that is stop-over and re-billing - or when it moves from one form of transportation to another, the freight in question originates again. It originates on two railways. Applying that distinction to the movement of wheat in the United States, I can give you a very large sample. I am not trying to analyze the whole thing; in fact, nobody can. I am sure the Interstate Commerce Commission could not give you any full information about it, but I can give you one important example. All the wheat that is moved from Duluth by water to Buffalo and there re-shipped by rail originates twice. It originates once on

the railway which brought it to Duluth and it originates again on the railway which took it to New York or Baltimore, so that you count these bushels over twice, and there is a tremendous lot of that. Let us consider how we would try to get at the actual figure of wheat moved in the United States for the purpose of my conclusion. We would have to start out by getting the amount of wheat which is shipped by rail from country points. We have that figure for Canada. We assemble that figure in Canada, and we have it daily. I have it here going back for years in Canada, and for each of the major railways. We know how much we move out of country elevators. But telegrams, telephone conversations and visits to offices in Washington have produced the unfailing reply that there is no such figure about the United States in the hands of the Association of American Railways, the Interstate Commerce Commission or the Department of Agriculture. Hence I cannot get that figure. Therefore I have to go at it the other way. I have to do something in the nature of what I hope is intelligent guessing. In 1947 we had 1,367 million bushels of wheat in the United States production. As I pointed out, that was an exceptionally large crop. Following the habits of exceptionally large crops, the inevitable custom, some additional quantity was added to the carry-over. I have not been able to trace that figure, but you can assume there was a substantial addition to the carry over in a year of a most unusually large crop. That would not move by rail that year. In the second place, there is feed and seed. I have a lot of feed and seed figures which I could go on playing with for a long time. All I can tell you is that they are somewhat

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difficult. The ten-year average use of seed on farms in the United States is nearly \$77 million. In the year of 1948-49 and the year of 1947-48, it was \$91 million.

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(Page 18235 follows)

Q. You said "dollars" in your first figure.

A. I am sorry, 91,000,000 bushels, so that there is another 91,000,000 bushels you have got to take off your 1,365,000,000 because they never moved it. Then you come to what is fed. On that point we are up against it. The average ten year feeding in the United States on the farms where wheat was grown was 97,000,000 bushels. That we know did not move out by rail, but the average total feeding on United States farms for the 10 years was 225,000,000 bushels, the total feeding on United States farms. Now, what proportion of that represented feed which did not move sufficiently far so that it acquired a rail haul and became registered in my figure here, and what proportion of it consisted of trucking at good truck rates such as we have heard about, trucking from one farm to another in the area in which it was grown, I do not know. My best opinion is that you ought to take at least 50% of it as having been locally used and therefore not having obtained rail haul.

Then we go on a little further. We have to consider wheat which is milled locally and never enters rail haul. That is the sort of thing we are not very much accustomed to in Canada, but in the United States, with greater settlement and greater urban development in much of the United States, there is a great deal of that. There is a great deal of local milling for local consumption. In many cases I know by personal knowledge you will see truckloads of wheat coming into United States towns and villages to be milled for local use. That is another very large point.

So that you take all these things together and I am willing to say instead of the 1,443 million bushels which you arrive at by using these Interstate Commerce Commission

figure of tons originated, that the actual movement of wheat in the sense in which we would compare it with the movement of wheat from country elevators in Canada by rail, that the actual movement of wheat that year in the United States positively did not exceed 900,000,000 bushels and improbably exceeded 800,000,000 bushels. So what you get there is a general picture once again, and I hope, as I say, an intelligent guess. I do hope if any research is done on it I will have the opportunity to benefit from the research. It is a long job if long term research is made, and I should certainly like to see it. I think you will find in the United States if you move 800,000,000 bushels a year by rail you are moving a lot, and that that would have, generally speaking, a return to the railways of \$200,000,000 or \$225,000,000.

Q. Which is an average --

A. Well, I haven't done it but it is between 25 and 30 cents a bushel against an average in western Canada of 12.

THE CHAIRMAN: An average of --

MR. SINCLAIR: 25 to 30 cents a bushel in the United States as against an average of 12.

THE CHAIRMAN: The freight rate.

THE WITNESS: Yes. That is not complete. The whole thing has not been worked out. The whole thing would have to be worked out. I can only tell you after a lot of experience in this field and after many attempts to get a better figure I have never been able to get any closer result than that.

MR. SINCLAIR: Q. The reason for your explanation, Mr. Armstrong, is that you cannot merely take the I.C.C. statistics and come out with an answer that is comparable with the movement in Canada because of the fact that the

statistics are maintained and kept under different methods?

A. They are maintained for different purposes. These statistics were not assembled for the purpose of enabling me to make an argument before this Royal Commission, but that is a routine regular annual part of the United States railway statistics, and they are not given for this purpose. I offer that as a sort of warning to any adventurer in this field who would like to carry on my research for the next few years.

Q. Mr. Armstrong, having dealt with the United States situation I would ask you now to turn to the other briefs from western Canadian organizations in connection with the Crowsnest rates. These are smaller briefs, Mr. Chairman, and I do not intend to treat them in a very exhaustive way. Have you examined the briefs, Mr. Armstrong, submitted by the Saskatchewan Association of Rural Municipalities, the Saskatchewan Associated Boards of Trade and the Saskatchewan Urban Municipalities Association?

A. Yes, sir.

THE CHAIRMAN: What are these?

MR. SINCLAIR: Some of these briefs are merely one page letters, "me too" examples of submissions.

Q. Have you any comments on those, Mr. Armstrong?

A. None of these briefs give any attention to the subject which I am discussing, and that is the economic significance of the so-called Crowsnest rates. In each of these briefs it is taken for granted that an increase in these rates would be seriously disadvantageous, they always say, to the farmers, and as that is probably incorrect - at least in my opinion - I don't know that I could make much further comment on these briefs.

Q. The next brief I wish you to consider is that of

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Source: *Journal of the American Medical Association*, Vol. 67, No. 10, p. 1981.

the Alberta Federation of Agriculture. Have you studied that brief?

A. Yes, sir.

Q. Have you any comments?

A. Well, this brief, in common with others, lays the greatest stress, and correctly in my opinion, on the importance of wheat in the economy of Canada, and particularly of the prairie provinces. Everyone agrees about that. It goes on to express warm support of the various agreements between Canada and other nations concerning the sale of wheat as a method of stabilizing prices. I am not discussing this.

Q. Your remarks on that were in your earlier evidence?

A. I pointed out that was one possible method of stabilizing prices which was being experimented with at the present time.

Q. Yes?

A. But then this brief goes on to discuss the history of the Crowsnest pass agreement which was terminated, as we all know, some years ago by Parliament.

THE CHAIRMAN: What page is that?

MR. SINCLAIR: That runs pretty well through this brief, and I think the only comment we want to make on it is a short one. The brief takes a rather unusual view concerning certain grants that the Canadian Pacific have earned.

THE WITNESS: Throughout it speaks of the Crowsnest Pass agreement, despite the fact it was terminated in 1925, on the assumption that this agreement is still in effect. In fact it puts forward on page 10 a most extreme statement, -"if the Crow's Nest Pass agreement was found untenable by the C.P.R"--

THE CHAIRMAN: Where is that?

THE WITNESS: Page 10, sir.

THE CHAIRMAN: I would like to get the wording.

THE WITNESS: The last paragraph on page 10. It reads reads:

"It would be our opinion that if the Crow's Nest Pass Agreement was found untenable by the C.P.R. then it should be reconsidered on the basis of reverting back to the government these many assets which have been turned over to the railways at one time or another, both in regard to the main and Crow's Nest lines."

MR. SINCLAIR: Q. Have you a short comment to make on that? We will argue that to some extent, if necessary.

A. I can only say it is quite unreasonable to suggest that the now terminated Crow's Nest agreement ever had any relationship to land grants made by the Canadian government to obtain the construction and continuous operation of the Canadian Pacific Railway under charter of 1881.

THE CHAIRMAN: I would call your attention to the fact that Mr. Armstrong keeps on repeating that this agreement is terminated.

THE WITNESS: That is my opinion.

THE CHAIRMAN: It is a legal rather than any other kind of question.

MR. SINCLAIR: Yes, my lord; very early in these proceedings --

THE CHAIRMAN: It should not be taken for granted in the evidence that everybody is admitting the agreement is terminated.

MR. SINCLAIR: That is our contention, that insofar as the rate part of the agreement is concerned it has been terminated by unilateral action on the part of the dominion

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government.

THE CHAIRMAN: Yes, I am quite prepared to hear that put forward as an argument.

MR. SINCLAIR: I would not think it surprising, sir, that Mr. Armstrong, having read our brief on that, might be in agreement with it.

MR. FRAWLEY: My friend is aware that subsection 5 of section 325 makes special reference and says:

"..... notwithstanding anything in this subsection contained, rates on grain and flour shall, on and from the twenty-seventh day of June, one thousand nine hundred and twenty-five, be governed by the provisions of the agreement made pursuant to chapter five of the Statutes of Canada 1897...."

MR. SINCLAIR: I am very familiar with that section, and I say that the interpretation I put on it, and which is developed in the brief of the Canadian Pacific, in my submission clearly demonstrates that while the level of the rates is fixed the agreement does not govern grain movement in western Canada, and has not since 1925 when by statute this provision became operative.

THE CHAIRMAN: Of course we are quite prepared to hear your argument.

MR. SINCLAIR: I am rather surprised that my friend, Mr. Frawley, would draw my attention after all these days to the section in the statute and say to me, "did you forget that"?

MR. FRAWLEY: Our only reason is that the witness keeps telling us quite plainly, "the now terminated 1897 agreement."

MR. SINCLAIR: We say it is.

THE WITNESS: I cannot describe it any other way.

THE CHAIRMAN: The point is this. As a matter of

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legal construction you say this agreement has terminated, and you say Mr. Armstrong is entitled to use that language as your witness?

MR. SINCLAIR: Yes.

THE CHAIRMAN: Mr. Frawley disagrees with all that.

MR. SINCLAIR: Yes.

THE CHAIRMAN: Go on, then.

MR. SINCLAIR: As I say, Mr. Chairman --

THE CHAIRMAN: If a witness in the course of a trial

keeps on saying "John Smith is dead", you must find out some time or other whether everybody admits John Smith is dead. John might not like that.

MR. SINCLAIR: I can quite understand my friend may have something different to say, but Mr. Armstrong is not a lawyer, and all I suggest is, as I said earlier, that it is not surprising that he, and I hope others, after reading our brief have seen that the contention we put forward is the correct one.

MR. FRAWLEY: It is just a superstition; ^{but} it is one of those old Irish superstitions that are very much alive.

MR. SINCLAIR: No doubt we will hear from Mr. Frawley on that.

Q. There is one further brief that has been filed and which came in quite late. That was the brief from the Edmonton Chamber of Commerce, the Calgary Chamber of Commerce, the City of Edmonton and the City of Calgary and it is dealing with these Crow's Nest rates. Is there anything new in this brief?

A. Yes, there is. It repeats, of course, the usual argument about the status of the Crow's Nest Agreement, and the United States spring wheat farmer having more

exports than the Canadian spring wheat farmer, and being closer to his markets and that sort of thing, but it has a new idea. It says very plainly --

Q. You mean new to these other briefs?

A. Yes. It says very plainly that the American farmer gets his farm requirements cheaper than does the Canadian farmer opposite him, as one might say. It is very definite about that.

Q. Yes?

A. Point 2 at the top of page 3:

"....the American farmer gets his farm requirements cheaper than does the Canadian farmer situated on the other side of the border. The very significant effects of the tariff on farm costs in western Canada cannot be ignored...."

On that point I can only say that this may be true for any type of goods. Any particular thing may be bought in the United States more cheaply than across the border in Canada.

Q. May be, you say?

A. Yes. A great many things are. We know that. I am not going to attempt to analyze all farm requirements and see how prices compare but what I do want to say is that this is not the result of any railway policy in Canada. Canadian railways not only draw the Canadian farmer's wheat to market much cheaper than do the United States railways but in addition they provide cheaper freight rates than United States railways do on the goods which the farmer buys.

Q. Yes?

A. This brief simply suggested that point, that Canadian railways should be given the burden of correcting the difficulties under which the western Canadian farmer may labour as compared with his friend across the border.

Q. That is price-wise on commodities if there is a difference.

A. It tries to introduce into a freight rate discussion the question of providing compensation for any disadvantages which may have arisen from Canadian tariff policy. Indeed in speaking of the higher prices which the United States farmer gets for his wheat it also introduces ^{the idea} that Canadian railways in some way are responsible for the difference in wheat marketing policies in the two countries. I can only suggest according to that line of argument Canadian railways would become solely responsible for guaranteeing economic conditions in Canada identical with those in the United States, and really that does impress me as being a rather large task for a couple of transportation companies.

Q. Mr. Armstrong, I am now going to ask you to summarize your evidence on the matter of the Crow's Nest rates, and I think you have it under three heads, three points.

A. Yes. All these western briefs contain the same ideas. The first idea is that export grain rates are paid by the farmer. This I think I have demonstrated to be not automatically true.

THE CHAIRMAN: Q. How is it true then? In what way is it true? You say it is not automatically true.

A. I wish to point out that it is not incredible, in my opinion, that an increase in freight rates may conceivably be borne by farmers in certain circumstances. I am saying that to lay down the principle that all increases in freight rates are automatically borne by the farmer, which is the note of these briefs, is, I think, incorrect.

As a matter of fact, I would be quite interested to know whether the spokesmen for western farmers in this particular case all accept the theory which automatically arises from their contention that the present freight

rate assistance in respect of feed grain shipped to other parts of Canada from the prairie provinces increases proportionately to the price received by the grain growers on the prairies. I have heard more than one discussion with western grain growers in which they did not seem to be so certain. They thought the eastern feeder gets the advantage of that, and there is a case of a freight rate being reduced, in fact, abolished to no small extent -

MR. SINCLAIR: From Calgary to Vancouver the assistance amounts to the full transportation cost, and it is paid directly to the user.

THE CHAIRMAN: To whom?

MR. SINCLAIR: To the user, the feeder.

THE WITNESS: And the prairie grain grower does not seem so --

THE CHAIRMAN: Who pays the freight in the first instance, the shipper or the user?

MR. SINCLAIR: I think that there is a certificate that must be attached.

THE CHAIRMAN: It would be easy to find out how the subsidy works.

MR. SINCLAIR: I think some evidence was given in Vancouver that the receiver paid the freight, and with a certificate then received back from the government the amount of the assistance.

THE CHAIRMAN: What is the percentage of the assistance?

MR. SINCLAIR: 100% from Calgary to Vancouver, and it varies.

THE CHAIRMAN: From Calgary to the Pacific coast it is the whole thing.

MR. SINCLAIR: That is right.

THE CHAIRMAN: So so far as the shipper and the

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consumer are concerned it travels free. Is that it?

MR. SINCLAIR: That is it, and Mr. Armstrong's point is that under the thought expressed in these briefs that would mean that the western wheat grower, who grew this seed grain, would have received that full advantage because his transportation costs had, of course, been reduced to zero.

Q. What is your next point, Mr. Armstrong?

A. My next point deals with the question of whether the existing grain rates are fixed by the Crow's Nest agreement or not. There is a legal point again. I do not want to step out of my field but may I point out I was discussing this as an economist.

(page 18247 follows)

I am trying to point out that the economic level of the existing grain rates does not result from a Crows Nest agreement, if that were wiped out.

Q. In other words, aside from the legal point, you say that from an economic aspect the Crows Nest Pass agreement is not the operative factor?

A. I am bound to have that opinion.

THE CHAIRMAN: Q. Is not the operating factor?

A. Is not the controlling factor on grain rates at the present time.

MR SINCLAIR: Q. Now your third point?

THE CHAIRMAN: Q. I am not just sure that I understand what that means. We have the statute which provides that certain rates shall prevail.

A. That is the controlling factor, sir.

Q. Wherever they were found, in this agreement or elsewhere. Now, what is it you are saying about them?

A. I say that as a matter of history, sir, I know that the rates were originally fixed under an agreement.

Q. We all know that, yes.

A. And I know that as far as I am concerned they are fixed now by a statute.

THE CHAIRMAN: We know how on the one hand extensions were made and on the other hand liberations were made in favour of the railway. We know that. Is there any use now going over that?

MR SINCLAIR: No. I was trying to pass on to his third point, sir. He was just trying to summarize his evidence on these briefs, and that was his point number 2, and I am now asking for the third point.

THE WITNESS: The third point which I found throughout these briefs is the repeated statement that any alteration in the existing grain rates would introduce

instability -- that is a word which is quoted and repeated -- into the western Canadian economy. Now, presumably most of those whose spokesmen have filed these briefs have welcomed more or less warmly the negotiation of the existing international wheat agreement; certainly at least some of them have; some of the bodies who filed are on record as favouring the present international wheat agreement as being the method of obtaining stability for the western farmer. Now, that instrument provides for prices for wheat which are permitted to vary in this crop year, in the present crop year, from August 1, 1949, to July 31, 1950, as between \$1.98 in Canadian currency and \$1.65. During the four years of its life this instrument provides for variations between \$1.98 and \$1.32. I can only say that this is a degree of instability far in excess of any which would probably be introduced by repealing the statutory provisions in respect of the existing grain rates.

MR SINCLAIR: That is the direct examination.

THE CHAIRMAN: Any questions to Mr. Armstrong?

CROSS-EXAMINED BY MR MACPHERSON:

Q. Mr. Armstrong, you told us the other day in opening that there were 1,800 million bread-eating people in the world, I think?

A. I pointed out that there were at least 1,800 million people who eat some bread, that the greater part of them use bread as their staple food. There is always a marginal area in which people swing from wheat to rice and from rice to wheat.

THE CHAIRMAN: Q. When you say bread, do you mean wheat bread?

A. I mean wheat bread, yes, sir -- wheat bread in one form or another, even if it is diluted to the form of the

low-grade mixed bread we are so familiar with in some continental countries.

MR MACPHERSON: Q. Mr. Armstrong, can you tell us what the average world production of wheat annually is?

A. About 6,000 million bushels, along in that order.

Q. 6,000 million bushels, which would be about 6 billion bushels?

A. That is right.

Q. Now if you will turn to page 103 of the Appendix to Part I, the Canadian Pacific has there given the final figures of wheat crop in the years from 1915 to 1948 inclusive?

A. Yes, sir.

THE CHAIRMAN: What page did you say?

MR MACPHERSON: Page 103, my lord, of the C.P.R. brief Appendix.

Q. So with a total---

THE CHAIRMAN: What was it you just said?

MR MACPHERSON: What I said, my lord, was this, that page 103 shows the final figures of wheat crop in bushels from 1915 to 1948 inclusive.

Q. With a world production, therefore, of 6 billion bushels, not in a single one of these years was the total production of Canada 10 per cent of world production?

A. Quite right, sir.

Q. And in some years less than 5 per cent of world production?

A. Yes, sir.

Q. Now, you have just referred, Mr. Armstrong, to the international wheat agreement, and I think it would be well if a copy were filed as an exhibit, which I propose now to do. This is the international wheat agreement which was entered into at Washington on the 23rd of March, 1949, and

the Canadian ratification was deposited on May 12, 1949.

---EXHIBIT 211: International Wheat Agreement,
Washington, March 23, 1949.
Canadian Ratification deposited,
May 12, 1949.

MR MACPHERSON: Q. Now, according to this agreement, as you know, Mr. Armstrong, there were 42 signatories?

A. Yes.

Q. Of whom 37 were importers and 5 exporters?

A. Yes, sir.

Q. The 5 exporters being Canada, the United States, Australia, France and Uruguay?

A. Yes, sir.

THE CHAIRMAN: Not Argentina?

MR MACPHERSON: Not the Argentine, no.

THE WITNESS: They refused to sign, didn't they?

MR MACPHERSON: Not the Argentine and not Russia. Russia I believe was in conference in the early stages but was not there in the latter stages. At page 20 of the agreement, my lord, you will find the price to which Mr. Armstrong has just referred.

Q. And that price is fixed, as you said, at \$1.80 as the top price?

A. \$1.98 now.

Q. I am talking about the agreement. It is \$1.80 in American funds. At page 20 of the agreement, it is \$1.80 as a maximum price, and the minimum -- that is, the floor -- shifts from \$1.50 in the crop year in which we now are to \$1.40 in 1951, \$1.30 in 1952, and \$1.20 in 1953, in Canadian currency per bushel at the parity for the Canadian dollar determined for the purposes of the international monetary fund as at March 1, 1949, which means in Canadian currency that the maximum is now \$1.98 because of the devaluation, and the low floor of \$1.20 is \$1.32. That is

correct?

A. The figures I gave, yes.

Q. But that is the agreement. Now, I referred the other day, my lord, to the fact that the United States was paying a subsidy, and I want to make clear now just what that position is. On page 10 of this agreement the guaranteed purchases by the 37 countries, the importers, amounts to 456 million bushels for the period?

A. A year.

Q. 456 million bushels. Now, the guaranteed sales, the United States guarantee sales of 168 million bushels, on page 12, and the Chicago market is about \$2.30 now; that is correct?

A. Yes.

Q. So that the American exchequer pays to the seller who exports within that 168 million the difference between \$1.80 and \$2.30 or whatever the selling price is on the market?

A. Not quite the way the agreement reads, but still---

MR SINCLAIR: Have you got an extra copy?

MR MACPHERSON: No.

THE WITNESS: That is not quite the contract, you see, Mr. MacPherson. The agreement is that the United States will make available for sale 168 million bushels and that other countries will buy it. This agreement does not cover nothing but bulk sales between governments. It is provided that it may be handled through private trade. All that this agreement binds the United States to is this, that if at the end of a crop year the United States has not made available for sale to other countries and exported to other countries 168 million bushels, then it has got to make up the difference; but, as you see, it is a different picture altogether to the one that you have.

MR MACPHERSON: Q. What I am saying to you is that the American seller gets the price on the market for the grain that is sold?

A. Yes.

Q. And all under this agreement that the importer can be charged is \$1.80 in American funds?

A. Unless he is willing to pay more. There is no obligation; there is no obligation.

Q. Yes, there is.

A. There are no obligations.

Q. Is not \$1.80 the ceiling during the period under this agreement?

A. Yes, I agree with you, but I think you are slightly misunderstanding. But the subject is a little complex, perhaps. The point is that if the Chicago market goes down to \$1.80, then the United States Government is not obligated in any way to pay \$1.80.

Q. Quite; but the price today is \$2.30?

A. Yes.

Q. The price has been as high as \$2.38?

A. Yes.

Q. And the difference between \$1.80 and that \$2.30 or \$2.38 comes from the exchequer of the country?

A. To the extent to which it is necessary to do that, in order to complete the year's undertaking to export.

Q. That is right.

A. To that extent.

Q. Now, you have told us that the world production of wheat was 6 billion bushels?

A. Approximately, very approximately, yes.

Q. And so far as this agreement is concerned, it has as signatories most of the importing countries of the world, has it not?

A. Yes.

Q. Very few importing countries that are not parties to this agreement?

A. Now if Germany and Japan get taken in I think it will pretty well take up the list, yes.

Q. I am coming to Germany and Japan; but what I want to point out to you, Mr. Armstrong, is that all these 37 countries will guarantee to take for world trade over the period is 456 million bushels; that is right?

A. Yes.

Q. And according to the announcement of Mr. Howe in Parliament the other day, Germany and Japan are being taken in, which will increase this amount of world trade guaranteed to 556 million bushels?

A. That is right.

Q. And whereas Canada under this agreement has 203 million bushels of the 456 to furnish, with Germany and Japan in in the current year that will go to 220, and increase progressively in the last year to 230; that is correct?

A. Yes, that is correct.

Q. Then having regard to the fact, Mr. Armstrong, that the world production is 6 billion bushels, that these countries have been careful to fix their requirements as low as 456, or adding Germany and Japan at 100, 556, world trade is a small proportion of world production, and a very small proportion?

A. Yes.

Q. And Canada's proportion of that, 220 this year to 230 in the last year, is a very high percentage of the guaranteed world trade, which indicates to what extent Canada is dependent in the matter of its exports on world trade?

(No answer).

THE CHAIRMAN: Q. Do you agree with that?

A. But Mr. MacPherson did not ask me a question. He is making a speech, and I thought he was going on. You asked me a question? What is the question, Mr. MacPherson?

MR MACPHERSON: May we have it read?

THE REPORTER: "And Canada's proportion of that, 220 this year to 230 in the last year, is a very high percentage of the guaranteed world trade, which indicates to what extent Canada is dependent in the matter of its exports on world trade?"

MR MACPHERSON: Q. Is that not so?

A. Yes, oh yes.

MR MACPHERSON: Now, there are two other exhibits that I would file. I have only one copy of each. I do not think there is anything controversial in them, and I am sure Mr. Armstrong will be familiar with them. They are reports released by the Bureau of Agricultural Economics, United States Department of Agriculture. The first is for May and June 1949, which I would like to file as Exhibit 212.

---EXHIBIT 212: Report entitled "The Wheat Situation" for May-June 1949, by Bureau of Agricultural Economics, U.S. Dept. of Agriculture.

MR MACPHERSON: Then the very latest, dated February 16, 1950, which I would like to file as Exhibit 213.

---EXHIBIT 213: Report entitled "The Wheat Situation" for Jan.-Feb. 1950, by Bureau of Agricultural Economics, U.S. Dept. of Agriculture.

MR MACPHERSON: Q. You are familiar with these reports, Mr. Armstrong?

A. More than likely, more than likely, unfortunately.

Q. I know; as a student, I am sure you will be?

A. More than likely, yes. Yes, I have seen that one.

Q. That is the very latest.

A. Yes, yes.

Q. Now I would like to read the very first page of the last one (Exhibit 213):

"Canada, with average exports of 182 million bushels during 1935-36 to 1939-40, was the leading exporter of wheat including flour. The United States, with an average of only 53 million bushels, was one of the smaller exporters. Argentina and Australia each exported more than 100 million bushels. Western European countries were the leading importers, taking about 375 million bushels annually.

During 1946-47 to 1948-49 the United States exported an average of 463 million bushels of wheat and flour -- nine times as much as prewar -- and became the leading exporter. Canada increased its exports from 182 million prewar to 223 million bushels annually, and ranked next to the United States. Exports from Australia averaged about the same as prewar, but those from Argentina were reduced to about half of the prewar average."

You referred this morning to carry-over in the United States, Mr. Armstrong?

A. Yes, sir.

Q. And if you will look at this Exhibit 213 at the bottom of page 8 you will see:

"On July 1, 1948 these stocks had increased to 536 million bushels, and on July 1, 1949 to 652 million bushels."

THE CHAIRMAN: Where is this?

MR MACPHERSON: The United States, my lord.

Q. "While stocks of this size cannot be considered large, they are 42 percent above the 1935-39 average

of 458 million bushels."

So that even, Mr. Armstrong, allowing for the exports that they say they have had, on page 1, of 463 million bushels, nine times as much as prewar, they have a carry-over now 42 per cent above the 1935-39 average; that would be right?

A. In view of the source, Mr. MacPherson, I think you can have every confidence in those figures.

Q. I thought so. Now, there is certain other information in these that I thought would be interesting to the Commission. They have a loan programme in connection with the American wheat crop, they have a loan programme in the United States, loaning money on grain; you know of that, Mr. Armstrong?

A. Very well, Mr. MacPherson, very well. I have followed it since its inception.

Q. On page 3 of this report it says:

"The loan program has been the biggest factor in the considerable advance prices have made since early in the season. Large quantities are under the current price support programs, and in addition CCC has sizeable inventories of wheat."

Now, CCC is the Commodity Credit Corporation of the United States, is it not, Mr. Armstrong?

A. Yes, sir, oh yes.

Q. And that is a government agency?

A. Yes.

Q. Now, on page 4---

MR EVANS: Is this still 213?

MR MACPHERSON: 213, yes -- no, page 4 of Exhibit 212; that is the issue of May and June 1949:

"Liberalization of the loan program and provisions for the construction of additional storage space were announced on June 7. These include: (1) 'Distress'

loans will be made on wheat in temporary storage and on wheat piled on the ground in the open in certain areas at 75 percent of the full support level."

You are familiar with that, Mr. Armstrong?

A. Yes, sir.

Q. Now, as to prices, Exhibit 213 at page 24----

THE CHAIRMAN: What is the period?

MR MACPHERSON: This is the issue of February 16, my lord, the last issue of this, 1950. This gives Table 9,:

"Wheat: Prices per bushel in three exporting countries, Friday nearest mid-month",

and in hard wheat it takes the United States No.1 Dark Northern Spring, and Canada No.2 Manitoba. According to this table, on the 14th of October, 1949, No.1 Dark Northern was \$2.32, No.2 Manitoba \$2.13. On the 27th of January of 1950 No.1 Dark Northern was still \$2.32, with slight variations, whereas No.2 Manitoba at Fort William was \$1.93. Now, that is, according to this table, the price of No.1 Dark Northern Spring was exactly the same on January 27th as it was on October 14th, \$2.32, in American currency of course; and No.2 Manitoba at Fort William, whereas it was \$2.13 Canadian currency on October 14th, was \$1.93 on January 27th.

A. What year, Mr. MacPherson, if you don't mind my interrupting you?

Q. This year.

A. Oh, I see.

THE CHAIRMAN: Now we can adjourn for a few minutes.

(Recess)

(Page 18259 follows)

UPON RESUMING

MR. MacPHERSON: If I may, my lord, I should like to direct the attention of the Commission to page 6 of Exhibit 213 - that is the latest - where it says as follows:-

"WHEAT PRICES GENERALLY BELOW LOAN;
SUPPLIES UNDER LOAN AND OWNED BY
CCC IMPORTANT PRICE FACTORS

Price of Hard wheat at Kansas City rose above the loan the latter part of January, although prices of Soft Red Winter at St. Louis and Spring at Minneapolis continued slightly below the loan".

THE CHAIRMAN: Are you talking about "below the loan"?

MR. MacPHERSON: As I understand it, the Commodity Credit Corporation loans more than the price of the wheat.

Q.. Is that right, do you know, Mr. Armstrong?

A. It often happens, yes. It often happens that people who have wheat prefer to sell it at a discount rather than hold it under loan.

THE CHAIRMAN: You say that they lend the farmer more than the price of his wheat?

MR. MacPHERSON: That is right.

THE WITNESS: More than the price that his wheat will obtain in the open market.

THE CHAIRMAN: More than the value?

MR. MacPHERSON: Q. More than the market price?

A. Quite so.

MR. MacPHERSON: To continue reading from the Exhibit:-

"All prices were off in early February.
With some recovery, prices on February 7
were as follows, loan in parentheses: No. 2

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Hard Winter, ordinary protein, at City \$2.17 (2.20); No. 1 Dark Northern Spring, ordinary protein, at Minneapolis \$2.15½ (2.22); No. 2 Red Winter at St. Louis \$2.22 (2.25); and No. 2 Soft White at Portland \$2.18½ (2.16)."

The last figure is the only instance where the loan was less than the market price.

THE CHAIRMAN: Is there any explanation justifying loaning in excess of the value of the article?

MR. MacPHERSON: There is none here, my lord.

COMMISSIONER ANGUS: Is there any security for the loan other than the wheat?

MR. MacPHERSON: None. What I mean is this.

Q. There is no personal covenant, is there?

A. No; the loan is on the wheat.

THE CHAIRMAN: Q. Is there any personal covenant?

A. It is without any personal covenant. The loan is on the wheat purely and simply; it is a chattel loan.

Q. If the wheat disappears, there is no recourse in the hands of the government?

A. No.

Q. I mean, in the absence of fraud?

A. No.

Q. It is wheat left out-of-doors?

A. The government may insure itself, but I do not think so. I think it just takes a chance on that. They do not want to leave it out-of-doors if they can help it, and they are constantly trying to get the farmers to build more storage capacity so as to store it safely.

Q. Will they loan them money to build that storage capacity?

A. Yes, they will loan money to build that. Would you mind if I added something to that?

MR. MacPHERSON: Q. Go ahead.

A. The reason why you so frequently find wheat selling below the loan value in the United States from time to time is that lots of farmers prefer to get the wheat off their hands at (Continued on next page)

a discount of 2 or 3¢ under the loan rather than pile it up and wait to sell it later on. It is true that they can get the money from the government in cash and keep the wheat. But I can understand the mentality of the farmer - and I think we all can - with a lot of wheat on hand, who fills his bins with wheat and takes the money and sits there and watches the wheat. Lots of farmers want it out. They want to get rid of it. They have got to do their trucking at a convenient time. They do not want to get themselves into the jam of having a lot of wheat on their hands.

THE CHAIRMAN: So far, from what Mr. MacPherson has read, I do not know to what extent the farmers follow that practice or the extent to which they sell at a lower price. I do not know that. The fact remains that they may borrow more money than their wheat is presently worth, and without any personal covenant. If the wheat is gone, it is just too bad.

MR. MacPHERSON: Yes.

THE CHAIRMAN: What is all this evidence given to us for?

MR. MacPHERSON: I am simply giving it in conjunction with other evidence as a basis for argument that I will later make, to indicate that so far as Canada is concerned none of these devices are being followed. There are devices like that in the United States, but none are being followed here. Then I want to stress that, as I will, in connection with the necessity of low freight rates.

THE CHAIRMAN: Always on the assumption, of course, that any increase in the freight rate would be borne by the farmer?

MR. MacPHERSON: Yes. I am coming to that.

THE CHAIRMAN: That is a matter about which we are uncertain, as far as the evidence goes. One says yes, and one says no.

MR. MacPHERSON: I am coming to that in a moment. But I wanted to point out one or two points for my general argument or the argument I will make in this connection.

On page 3 I find the following:-

"Total world breadgrain grade for 1949-50 is now expected to be reduced 10 percent or more below 1948-49."

That is the statement they make here. Then the last reference I wish to make to these exhibits is to this last one at page 3 where it deals with the condition of fall sown grains as being unusually favourable in most European areas at latest report. Then the condition in the United States is also indicated as good.

There is one other point in connection with these United States Exhibits to which I should like to refer and that is on the last page of Exhibit 212. There is given there United States production from 1929 to 1948 inclusive. It will be seen how it has increased from an average of about 800 million bushels per year prior to 1942 to the top figure, as Mr. Armstrong gave us this morning, of 1,367 million in 1947; 1,288 million in 1948; and over a billion each year since 1944.

Q. And the 1949 crop was also over a billion, was it not?

A. Yes.

Q. For Mr. Armstrong's information, this table indicates as well what was fed to livestock and what was ground at mills for home use or exchanged for flour.

A. That is right.

Q. Which would somewhat lessen the figures you gave this morning, but it would be a matter of information?

A. I am sorry, but they are not comparable figures. I did not attempt to give a figure showing what was ground at home or exchanged for flour.

Q. Well, you made an estimate on that basis?

A. No. I made an estimate of the total local millings in local areas handled by truck and not shipped by rail. I did not put a figure on that. I merely pointed out that it would be quite a large quantity.

Q. I understand that information will be of assistance in that connection. Dealing with this question as to who pays the freight, you were very definite yesterday on a number of occasions as to your view and as to your opinion, were you not?

A. I hope so, sir.

Q. At page 18062, you said that a moderate increase can be forgotten so far as the farmer is concerned?

A. Yes, sir I am quite sure I did.

Q. At page 18063 you said that a moderate increase could not possibly damage his interests?

A. Yes.

Q. At page 18109 you said you were not going to hurt the farmer at all?

A. Yes.

Q. At page 18119, in answer to a question, you said in reason, without fear or tremor.

A. Yes, sir.

Q. At page 18132, in a conversation with the Chairman, you said that as long as wheat flows, he would not be injured?

MR. SINCLAIR: "Freely".

THE WITNESS: I said "freely".

THE CHAIRMAN: What was that?

MR. SINCLAIR: As long as wheat flows freely, he would not be injured.

MR. MacPHERSON: Q. Then when the definite question was put to you as to the statement in the provincial Briefs which indicated that the farmers paid the freight, you said definitely "I do not believe it"?

A. That is right.

MR. SINCLAIR: Invariably.

THE WITNESS: Invariably; not at all times.

THE CHAIRMAN: What is that? I did not hear what Mr. Sinclair said.

MR. SINCLAIR: I said that the position taken by some of these Briefs was that they invariably paid. There was one speech where your lordship pointed out - that was the first reference I found - that it was only substantially. He kind of departed from the earlier assertion.

MR. MacPHERSON: We will just read it again. This is what was said, as appears at page 18165:-

"MR. SINCLAIR: If what Mr. Armstrong has said meets the question raised, I would ask him to turn his attention to the statement in that short paragraph where it was suggested that the farmer pays the freight to Fort William. What have you to say about that?

THE WITNESS: We discussed it at some length this morning. I do not believe it."

Q. That was your answer.

MR. SINCLAIR: With the qualifications he put in.

THE WITNESS: I think, sir, that you have to go back and read my discussion in the morning in order to get the sense of my answer.

THE CHAIRMAN: Just a minute. What is the qualification? I think you told us a moment ago that Mr. Armstrong said that so long as wheat continues to travel - -

MR. SINCLAIR: Freely.

THE CHAIRMAN: Freely?

MR. SINCLAIR: Yes. I think that is most important; and Mr. Armstrong underlined the word "freely".

THE WITNESS: Yes.

MR. SINCLAIR: I think that is a most important qualification in there.

THE WITNESS: Yes.

THE CHAIRMAN: What do you mean by that qualification? How can it flow otherwise than freely?

MR. SINCLAIR: Oh, yes, my lord.

THE CHAIRMAN: I mean, in this connection, having regard to the matters before us, what do you mean?

MR. SINCLAIR: That is the very essence of the matter, that it move freely.

THE CHAIRMAN: What value do you put on the word "freely"?

MR. SINCLAIR: In fixing a rate that is a reasonable rate, it must be such under the value of service principle, that the zone of movement will be such that the maximum will move at the given rate, so that the rate being compensatory, it still cannot rise above a level that will enable the volume to obtain its maximum extent to enable the revenues to reach the figures that the

railways attempt to secure from the movement of commodities. Hence the word "freely" goes right to the value of service principle.

THE CHAIRMAN: When Mr. Armstrong was asked about that yesterday, I thought he said that so long as they did not amount^{to}/an embargo upon movement - -

MR. SINCLAIR: I think he was being pressed, and in this discussion I do not mean the word "pressed" to be used in an invidious sense at all; but I think that in this discussion which arose as to what would be a reasonable rate, he said if a freight rate - -

THE CHAIRMAN: He used the words "a dollar a bushel".

THE WITNESS: Yes.

MR. SINCLAIR: He said that was a most unrealistic kind of thing because that would disturb the movement of grain and he said there would be a time when it might even amount to an embargo. I think it is only fair to look at Mr. Armstrong's evidence in toto on this point.

THE WITNESS: Yes, sir.

MR. SINCLAIR: I think that we cannot just lift one phrase out of it.

(Page 18270 follows)

THE CHAIRMAN: But you see, Mr. Sinclair, the question really is whether any increase in these rates -- not that they would stop the wheat from growing -- but the question is: who would bear that increase?

MR. SINCLAIR: That is another matter.

THE CHAIRMAN: I do not think it is another matter. It is a very important matter by itself, because, as I say, it has been asserted on behalf of the producers that any increase will be paid by them, and that they will have to bear it; then, it is asserted on the other side: no. Any increase, if there is one, the importers will bear it.

If the increase is so high that it prevents all export, that is a different thing. Nobody will bear it, because the wheat will stay where it is.

MR. SINCLAIR: May I say, with great respect, that you have to remember -- and I tried to bring this out during my discussion yesterday -- that it depends, in certain instances, on the condition of the market. I think Mr. Armstrong made that clear.

THE CHAIRMAN: Mr. Armstrong said that; and he said that the very cry of distress which might come from the producers at any increase in the rates, might bring the market down in itself.

MR. SINCLAIR: Yes, sir.

THE CHAIRMAN: He said it would have just the indirect effect. He was talking of those depression years, when wheat was 38.5 cents a bushel, and that any little increase in freight rates then would^{not}/have been borne by the farmer, but that the farmer would protest so vigorously against it, that that would bring the price down, likely, in the rates.

MR. SINCLAIR: Quite so, because the buyers would take advantage of them.

THE CHAIRMAN: The point is this, whether it is distress or not, or whether it impedes the flow of wheat or not, who bears it? That is the question.

The farmer does not say: I am afraid of an increase because it would stop my wheat travelling. No. He says: if there is any increase, I will bear it, and I do not want to bear it.

He may be unreasonable in that. I do not say he is, or he may be reasonable.

Your evidence is directed to show that in any case the farmer will not be the one to bear it, because he has nothing to fear in itself.

MR. SINCLAIR: I have been trying to make it clear. You said that in any case he would not bear it?

THE CHAIRMAN: So long as it can go, the freight rate becomes part of the price.

MR. SINCLAIR: But there are always market conditions to be taken into account at the time. I do not think it can be stated in any case like that, the very fact you put it in disturbs it.

THE CHAIRMAN: I know. Mr. Armstrong puts in the word "reasonable", or something like that.

I do not think we have got to measure what is the meaning of the words "reasonable increase". That would be a very hard thing to do.

As he said in your brief, there would not be any increase made spontaneously. It would be arrived at after due consideration.

MR. SINCLAIR: Quite so.

THE CHAIRMAN: But even when that is done, even

if the increase is small and it is arrived at after this due consideration, you have Mr. MacPherson and the others speaking for the western farmers and saying: they would have to pay it anyhow, because they would bear it.

MR. FRAWLEY: That is our contention.

THE CHAIRMAN: No matter how small it is.

MR. SINCLAIR: Yes, sir.

THE CHAIRMAN: Can you show that they are mistaken in that?

MR. SINCLAIR: I think we have, sir.

THE CHAIRMAN: I am well aware of Mr. Armstrong's evidence, and it does show that.

MR. SINCLAIR: Yes, I think so.

THE CHAIRMAN: No matter how high the increase might be, without injuring the farmer.

MR. SINCLAIR: That is a matter for the Board, as we see it.

THE CHAIRMAN: Do you mean to say that the Board, in fixing a rate, should fix one that the farmer will not have to bear?

MR. SINCLAIR: I am saying that the primary consideration which the Board has to go on is that the rates shall be compensatory; and that having been done, then, what is a reasonable^{rate}/comes into the situation; and then; is it going to cause distress among the western farmers? Then it is a matter for the government to take into consideration.

THE CHAIRMAN: And not the Board?

MR. SINCLAIR: I say it is a matter for the government to take into consideration.

THE CHAIRMAN: Yes, and not the Board?

MR. SINCLAIR: Oh, no!

MR. MACPHERSON: The Board has not to be concerned with any economic conditions at all. That is a matter purely for the government?

MR. SINCLAIR: We did not say that. When this was discussed, we pointed out quite clearly that the grain rate, as we contended, should be fixed on the value of service principle.

THE CHAIRMAN: That is it, the value of service.

MR. SINCLAIR: And I do not think Mr. MacPherson is correctly stating it, when he says, we would not be concerned.

THE CHAIRMAN: The Board would have before it the value of service entailed, and would therefore fix a just and reasonable rate having regard to the fact.

MR. SINCLAIR: Quite!

THE CHAIRMAN: Now, then, the question still remains unsolved: who would bear the increase, no matter how reasonable it might be having regard to the value of the service? Would the shipper bear it or would the receiver bear it?

MR. SINCLAIR: Our evidence is on the record. And I say it is unchallenged by the briefs filed by the west to date.

THE CHAIRMAN: There was something said by your witness yesterday to the effect that such an increase might force a man, called a stout marginal man, out of business. How can you affect one person and not affect another?

How can you admit that the less prosperous farmer might be put out of business, without admitting that the more prosperous farmer might suffer some loss, although it might not hurt him so badly?

MR. SINCLAIR: The witness dealt with it yesterday.

THE CHAIRMAN: Those are two matters which have to be cleared up if we are ever going to solve the point which is: what rate could the railways accept as being a properly compensatory rate, having regard to the value of service rendered; and would it be borne by the farmer, or by the importer, or by the country? I know you are doing the best you can.

COMMISSIONER INNIS: I am not quite sure about your use of the word "freely". I can think of a situation where rates have been removed. Now, when you run that down, to what point do you come?

MR. SINCLAIR: Of course, my lord, and Dr. Innis, I do not think if you remove the freight rates on grain entirely, on the total movement of grain, that it would have an effect that some people think it would have, because I think that rail transportation cost, again, is so small a factor in the total transportation costs, and of other factors bearing on the market price of grain, that it is truly a most insignificant factor.

COMMISSIONER INNIS: Let us run it down to 38.5 cents, or to something near where the rate would be about equal to the amount which the farmer receives. Presumably it would not move at all. Does the freedom emerge wholly after the price of the wheat is just above the cost of moving it?

MR. EVANS: It seems to me that you would probably get the maximum of movement of everything with no charges for transportation at all.

Now then, every time you put on a charge, you add a factor, you do affect the movement unquestionably. Now, as Dr. Locklin's diagram illustrates, with his demand curve he arrives at a point on that curve at which

the maximum total net to the railway will result from the movement.

Now, that will be at a point on the demand curve that produces free movement, obviously; not the maximum free movement, but it obviously must produce a free movement; and it also produces the maximum net to the carrier.

Now, at the same time, when you speak of movement being free, you have to speak in the relative sense to some extent. You must do so.

One could not say that the rate affecting the freedom of greatest maximum/movement of grain or anything else, that it would be an advantage. When you speak of the term "freely" as related to the movement of any commodity, you must have regard to the point at which it moves freely, at the rate which will provide a compensatory level at the minimum; and such contribution above that as will maximize the net to the railway.

That is subject to a further limitation which I gave expression to yesterday.

The application of that theory to all rates could produce too much revenue to the railways, so that the ceiling is provided by the permissible earning power of the railways.

Adding all the results of these individual diagrams, if I may put it that way, together, you come to a sum total of permissible earning power that the railway may have.

So you might find that your theoretical diagram might have produced a greater revenue by intersecting the demand curve at a given point, but that the application of the maximum earning principle, might move that down

the demand curve to a point further out where you would get less than you would at the maximum point, because of the operation of the maximum.

I do not think you can be more specific than that.

COMMISSIONER INNIS: That covers the point. I was afraid that the word "freely" was being bandied about.

MR. EVANS: It must be relative, certainly.

COMMISSIONER ANGUS: That is very clear as far as it goes. But what about the point brought up yesterday in connection with classifications, and that the rate on grain should not go up to its own point of maximum return, but should remain within the classification in which grain stands, and that it would ^{be} unreasonable if it departed from that?

MR. EVANS: You are quite right, that there must be a classification, but the statement which I made to Dr. Innis would seem to me to be safe.

The classification in itself is a compromise. It is done by a rule of thumb which is called the analogy rule, and it is not done by Dr. Locklin's diagram, so there is a difference there.

And then you have intervening commodity rates below the class rates which may change that again; but you must not consider, I suggest, the classification even in regard to class rates without regard to the level of rates, because the classification could remain constant for a hundred years, and the rate in the column, in the classification remains similarly constant, while the rate level moves up and down, with possibly different rates at different times for other commodities.

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And then you have other rates coming in as commodity rates. That usually is a rate below the class rate. Now, to say just exactly what the situation is is impossible, practically.

COMMISSIONER ANGUS: I am thinking of a question I asked of Professor McDougall, and there was some discussion about it afterwards.

As I understand it, the proposal of the Canadian Pacific is that there should be a special commodity rate for grain which will not be lower than the class rate for grain.

What troubles me is the theory that the rate on grain could be left at a point which would give the maximum net revenue to the railway, but which might give a rate which was considerably higher than the class rate and not lower than it.

MR. EVANS: I tried, in answering Dr. Innis, to say that you always had to consider that the theoretical maximum was never achieved, unless you got the rates up to a level all around, where you have reached the theoretical maximum, and that prohibited the movement. But you always have, operating against that maximum, the permissible earning power of the railway.

COMMISSIONER ANGUS: But the rate on grain might go up to above the class rates and still be below the railway and its permissible maximum.

MR. EVANS: Quite.

COMMISSIONER ANGUS: And if the earnings of the railway are below that permissible maximum, would the railway feel quite free to ask that the classification on grain should be changed so that a rate might be charged on the grain which would give the maximum revenue

for grain?

MR. EVANS: I have not given any thought to that. I do not suppose, for one moment, that the Canadian Pacific has anything in its mind about attempting to get the classification changed.

As a matter of fact, the classification is probably a specific and proper classification. I used it for the purpose of illustration.

What we would do would ^{be to} ask for a commodity rate to be established, and we would produce to the Board the kind of cost study that we produced for this Commission, and we would say: here are our costs. Here are the ways in which we would give effect to the value of service principle.

And we would expect to hear from our friends on the other side that you had not done this or you have done that. And in the end, the Board would decide, after hearing the evidence, what a fair and reasonable rate would be.

My suggestion is that one thing which does seem to permeate our friends is a fear that, by that process, we can get something which is not just and reasonable.

To me that is much like saying that when you go into a court you are afraid of not getting justice. Perhaps some people are, but I am not one of them. I believe these institutions are the one thing we have got left to count on. And I suggest that fear that they will get a rate which is not just and reasonable is, in effect, saying: we have no faith left in the judicial temperament of anybody.

THE CHAIRMAN: Would you say that it was

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lack of faith which caused parliament to pass this section 325?

MR. EVANS: No, sir.

THE CHAIRMAN: The section does restrain the Board.

MR. EVANS: I have my own ideas as to why parliament passed it.

THE CHAIRMAN: On the face of it, it would seem to show lack of faith?

MR. EVANS: No, sir.

THE CHAIRMAN: It does not?

MR. EVANS: No, sir. It was solely the cause of the chaotic conditions resulting from a decision of the Supreme Court that discrimination, which arose by the application of the true interpretation of the agreement. They said it was intolerable. And parliament said: we are going to do away with it.

The Canadian Pacific had gone to the court and had given its interpretation. They either filed or intended to file rates which would have been obtainable only to certain points. That created discrimination.

The court said it was justifiable discrimination, because it was created by an agreement which had the force of a statute. Then they said: the Board has no power to order that kind of discrimination removed.

They suggested in the judgment, in a section which appears in our brief, that in as much as parliament was sitting, perhaps parliament could find an answer out of this chaos which resulted from the agreement.

Then parliament acted quickly and, I say this with respect, unwisely in what they did. But they acted,

and they acted to get away from the chaos which the true interpretation of this agreement produced.

THE CHAIRMAN: You say they acted unwisely?

MR. EVANS: Yes.

THE CHAIRMAN: On this question of the value of the word "free" in movement, we must not forget this consideration which is, I think, behind all this trouble, and it is: that this product you are dealing with now is one of which, probably, somewhere between two-thirds and three-fourths of it must move out of the country.

MR. EVANS: Yes, sir.

THE CHAIRMAN: That is to say, it is not a question of the farmer disposing of it elsewhere and saying: I won't ship because the rates are too high. I will sell it here or there.

There is no such alternative. This product must go to foreign countries.

MR. EVANS: Yes, sir.

THE CHAIRMAN: That, I take it, is a factor which has a lot of bearing on the whole question.

MR. EVANS: I think it has an unquestionable bearing, and I think that Mr. Armstrong, in his evidence, from the beginning, recognized the extreme importance of that fact.

THE CHAIRMAN: Yes. I am using it now because it is a fact and it is important. "Movement freely"; it must move or it must not exist.

MR. EVANS: Yes.

THE CHAIRMAN: Some other products can either
and
move or stay, nobody is particularly hurt. Therefore the movement of those products would stop quicker than the movement of this product would stop, because it

must move.

MR. EVANS: I quite agree. And one thing I abhor is that of getting into a position where anyone would think that we did not recognize the importance of the movement of this commodity.

THE CHAIRMAN: We must all bear it in mind in considering these elements introduced into this situation or this case by the use of the word "freely" because, you would say: Oh well, the producers won't ship; they will do something else.

I do not say that you say that. But I say that this talking generally about whether the traffic will move or will not move will mean: it will be here; it won't move, but we will dispose of it in some other way. But this is a piece of traffic which must move.

MR. EVANS: I quite agree.

THE CHAIRMAN: And if it does not move, it will not be produced?

MR. EVANS: Is it not a very simple problem after all?

THE CHAIRMAN: I think it is, if only we could solve one or two points. But they are not solved in my mind yet.

MR. EVANS: But the solution is really simple. If the railways are to provide service, they should not be expected to provide that service below cost.

THE CHAIRMAN: Pardon me. That, as a proposition, is true. But what we are dealing with now is something which comes in, or which should be disposed of in the order of time before this, and it is this problem which we have, and as to which Mr. MacPherson, Mr. Frawley, and the others say: that whatever ^{the} increase on these rates

might be, the farmer is going to have to bear it.

Then you say: Oh, no. That is all wrong. That is a misconception.

And Mr. Armstrong went so far yesterday as to say that it was a superstition.

Now then, between those two assertions, I would like to be able to find a way out.

MR. EVANS: May I suggest that no witness has gone into the witness box, and no expert has gone into the witness box and has asserted, and has stood cross-examination on this subject of the Crow's Nest Pass grain rates.

MR. MACPHERSON: Dr. Britnell was cross-examined.

THE CHAIRMAN: I examined him myself. He made a positive statement which is in the brief, that whatever the result, or whatever the increase might be, the producer would have to bear it. He maintained that by himself, not in the brief.

(Page 18286 follows)

Now, it is only opinion evidence, of course, but it ought to be founded at least on experience and on sufficient reasoning. There it is.

MR EVANS: We have a provincial witness who had a contrary view.

THE CHAIRMAN: Yes.

MR EVANS: And I have no doubt that provincial witnesses will be called to support these briefs on the grain matter. Now, it will be for you, sir, and the other members of this Commission to weigh the evidence of experts and to decide which is the better reason.

THE CHAIRMAN: There is no doubt about that, but the point is, if it could be ascertained clearly and very definitely that an increase in these rates -- I am just mentioning this as something to work on -- of say 20 per cent would not be borne by the producer, if that were admitted on all sides, it seems to me then the controversy would come to an end.

MR EVANS: I quite agree.

THE CHAIRMAN: Now, in order to get to the main question you have first to dispose of that one, I think -- whether or not any increase, large or small, would fall on the producer of wheat in Canada or on the buyer of wheat outside Canada. As I say, all this evidence we are getting is a contribution, of course, but so far I would not say that it settles the question.

MR EVANS: Well, may I argue this? I would argue that it did, but no evidence necessarily settles the question.

THE CHAIRMAN: Well, it may be that it is a matter you cannot settle. It seems to me that possibly there is a middle ground, that if there is an increase, I mean if rates are considered to be high, at some point both the shipper and the importer abroad share the burden; I do not know.

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MR EVANS: Well, we will ask you to consider the evidence, and I hope that we will be able to present it to you in such form as to be convincing. I do not know that---

THE CHAIRMAN: On that bare point, you see, there may be circumstances where the shipper would have to bear the increase without suffering any injustice whatsoever. Now, we have this much, that Mr. Armstrong has told us that an increase, what would otherwise be a reasonable increase, might put the man he describes as the sub-marginal wheat grower out of business.

MR EVANS: He recognizes that in certain conditions---

THE CHAIRMAN: If that is the case, how can you say it does not affect them all?

MR EVANS: We never said that it does not affect them. We have said that there are conditions in which it will have an effect, but Mr. Armstrong has given with that qualification his view, that a moderate increase in these rates would have no effect. Now, one can never say, as I said to Dr. Innis a minute ago, that a cost of transportation, any more than any other element in the cost of production, has no effect upon the production and marketing of a commodity, I don't care what commodity that is. Now, the question is, assuming that there is some effect, is it---

THE CHAIRMAN: Well, if you assume that, of course, you are travelling toward Mr. MacPherson's view.

MR EVANS: I do not think so, sir.

THE CHAIRMAN: Well, you are assuming it has some effect on the shipper, are you? Are you assuming that?

MR EVANS: I say no one can say that it has no effect. The opinion is offered that under these conditions it will not have any deleterious effect on the western farmer.

THE CHAIRMAN: Deleterious effect?

MR EVANS: Yes.

COMMISSIONER INNIS: I was just going to follow that point a little bit further, Mr. Evans. You mentioned maximum revenue for the railway.

MR EVANS: Yes.

COMMISSIONER INNIS: Now, of course the great problem before this Commission is the prospect of trying to make the term maximum revenue for the railway coincide with maximum revenue for the farmer.

MR EVANS: Quite.

COMMISSIONER INNIS: And I am wondering whether you would care to go so far as to say that maximum revenue for the railway would vary from season to season, depending on the price or on the amount of wheat which was being shipped, and so on, and if you were to go that far would you go so far as to say that the rates should be extremely flexible?

MR EVANS: No, sir, I do not go beyond your first postulate. The assumption that the maximum revenue for the railway coincides with the maximum revenue for the farmer is something I could not assert. I do not think there is any real connection there, because the maximum revenue for the farmer does not depend on transportation; it depends on world markets, it depends on a whole lot of things, it depends on climate, it depends on his production, it depends on his own costs.

COMMISSIONER INNIS: And to some extent on transportation.

MR EVANS: Oh, yes. You could never -- I say this with some assurance -- you could never provide a rate that was tied to the net revenue of the farmer. To me that would be wrong in principle.

COMMISSIONER INNIS: But you can go further, I think, and say that politically you can never apply a rate which will offend the position of the farmer -- you bring in your old friend the psychologist -- if it gets too much out of line you will have political repercussions.

MR EVANS: There is no doubt about it; we have seen political repercussions.

COMMISSIONER INNIS: Now, whether it is possible to get something which is nearer reasonableness with regard to maximum revenue to the railway and maximum revenue to the farmer seems to be a very important problem, on which we are not getting very much light.

MR EVANS: Well, I am hoping that perhaps I can throw a little light on it eventually.

THE CHAIRMAN: I suppose your position is this, then: If we do ever cross that first bridge, whether or not the shipper is to bear the whole or part of an additional rate, if it is established that he will have to bear the whole or a part of it, then you would argue after that, well, after all, that should not stand in the way of a reasonable return to the railway.

MR EVANS: No, sir.

THE CHAIRMAN: Would you?

MR EVANS: Yes, I would argue that.

THE CHAIRMAN: Now, this morning we have been anticipating, of course, the argument that eventually we will have to hear, but bear in mind it may be necessary for us to find, to express at least an opinion, as to who would bear the incidence---

MR EVANS: We anticipate that you might.

THE CHAIRMAN: And these premature arguments do not do any harm; I think rather they do good, because they help us to remember the points to be borne in mind, and I

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say again that the first point is -- there will be a second and a third, but the first point is -- that on the one hand so far the producers say, "Whatever the increase might be we would bear it, it would come out of our price," and on the other hand you say that is not right.

MR EVANS: I say it cannot be right; it just cannot be.

THE CHAIRMAN: Well, that is the issue.

MR EVANS: Yes.

THE CHAIRMAN: Now that we know that that is the issue, perhaps we can get evidence directed toward it.

MR MACPHERSON: I do not think, my lord, I should let the record stand as it is in respect of certain statements made by Mr. Evans, where he attributed to myself and those associated with me a distrust of the courts, a fear of the courts, and that sort of thing. We have just as high a regard for the courts and as much faith and confidence in them as he has, and it is because we regard Parliament as a very high court that we are urging that the matter be left as it is. I simply make this statement because certain statements were made by him which I do not think should stand unanswered in the record, having regard to my colleagues and myself.

THE CHAIRMAN: Well, I think we will adjourn now.

---The Commission adjourned at 1:00 p.m., to meet again at 2:45 p.m.

Ottawa, Ontario,
Thursday, March 16, 1950.

AFTERNOON SESSION

P. C. ARMSTRONG, RECALLED

CROSS-EXAMINATION BY MR. M. A. MACPHERSON CONT'D

MR. MACPHERSON Q. Mr. Armstrong, we had some discussion this morning about the matter of freight rates and who paid them, the farmer or the importer.

I think you will probably agree with me that, so far as the farmer is concerned, in a practical sense, he regards them as the price that he obtains by way of currency in exchange for his product; that is, his price?

A. What price?

Q. The price to him.

A. What do you mean by "he regards as his price"?

Q. What he regards by way of hard cash in exchange for his product?

A. Yes, sir, naturally, certainly.

Q. Now, that being so, we will take this practical situation.

Suppose I am a farmer at Regina. And suppose you have agreed that a reasonable and moderate increase of rates from Regina to the head of the lakes would be 12 cents?

A. I express no opinion.

Q. No opinion at all? Do you think it would be moderate?

A. I am sorry. But the question of fixing freight rates is a subject with which I have never had

any concern at any stage of my career. You must excuse me from posing as an expert on that.

THE CHAIRMAN: Q. Except that you could tell us where the incidence of these rates would fall?

A. I am sorry.

Q. But not as to the size of them?

A. I have no opinion, and I am totally unfitted to pass as an expert in that connection.

MR. MACPHERSON Q. At page 18110, you said:

"But I would say this, according to Mr.

MacPherson's calculation, it would be only reasonable to double these rates, it is not a wild one."

A. I read your calculation. I was not present when it was given, but I read it in the transcript, and it struck me that you had not made a wild guess, but you were bolstering up a case for argument that they ought to be increased by 12 cents a bushel.

I did not think you had made a guess, but that you were building up a case for argument and had said: I can show this is a proper increase.

Q. But you said yesterday:

"A. It would be a problem to be dealt with very carefully because anything which affects a large industry must be dealt with very carefully. But I would say this, according to Mr. MacPherson's calculation, it would be only reasonable to double these rates, it is not a wild one."

A. I once again repeat that I did not suspect you of making a wild guess.

Q. We will start off accepting your view that

it was not a wild guess, and that the increase in rates ought to be 12 cents a bushel; and that I am a farmer at Regina, and that the rates go up tomorrow.

Then, this fall I ship a carload of grain, 2,000 bushels of grain, at an increase of 12 cents a bushel. That would \$240. Now, does the price go up so that I get that \$240?

A. Not as long as the present agreement continues. I stressed that yesterday.

Q. Which agreement?

A. The existing agreement under which we are selling wheat.

Q. The present agreement with Britain expires this year?

A. Yes, sir.

Q. And I am selling wheat this fall.

A. You are assuming that an open market has been restored?

Q. I am selling wheat, and you told us this morning that this was an open market to the extent of from \$1.65 to \$1.98.

A. It may be that I am too stupid to follow this argument.

Is your question as to what would happen to your income as a farmer, assuming that the Winnipeg grain exchange or the Liverpool grain exchange has been opened, and that wheat is being sold on an open exchange? Or is your question put on the assumption that there is, at that time, an agreement which fixes the price at Fort William for a period?

Q. I am taking your explanation. I am not

assuming anything, and I shall remind you of it first of all at page 18063, and then later on at page 18109. You say at page 18063:

"My suggestion is that no decrease in freight rates is likely to be of use to the Canadian farmer, . . ."

THE CHAIRMAN: "No decrease . . ."?

MR. MACPHERSON: Q.

"My suggestion is that no decrease in freight rates is likely to be of use to the Canadian farmer, while a moderate increase could not possibly damage his interests at any time."

And then, at page 18109 you say:

"A. Within reasonable limits, I would say the weight of evidence is all in that direction, to the extent you do increase rates in western Canada, you are not going to hurt the western farmer at all."

That was your explanation, and you had knowledge of this agreement?

MR. EVANS: He did make the explanation that while the agreement remained in effect there was a fixed price.

MR. MACPHERSON: I am suggesting to him now that that agreement expires with the crop year ending on the first of August, the British agreement.

MR. EVANS: Put both questions to him.

MR. MACPHERSON: You may not understand it, but he does.

THE WITNESS: I do not understand it. I said yesterday specifically that the rule that freight rates

might affect the price paid by the buyer would operate in a free market at any time, and that it was part of any agreement market, the bulk sale market, periodically, whenever agreements came to be revised. But I cannot answer your question unless you will tell me whether you are dealing with a free market or a bulk sale market.

(Page 18296 follows)

MR MACPHERSON: Q. Now, Mr. Armstrong, you and I both know perfectly well that the British agreement expires at the end of this crop year, and that the international wheat agreement is also in effect at the moment and will continue until 1954. Now, I am asking you, . . . until 1954, if I sell at any time until 1954, with the international agreement to which you realize Canada is a party, if I sell any time after the expiration of the British agreement and freight rates go up, then what is going to happen my \$240?

A. I pointed out this morning, sir, that the international wheat agreement is not yet interpreted as being a fixed price at Fort William. It is not yet interpreted that way. It is provided definitely in the international wheat agreement that private trade may be used as a method of implementing the terms of the agreement. Now, that means this, that if the market in Canada, an open market in Canada, were restored, and if that open market happened to pay a price in excess of that guaranteed under the agreement, there would be nothing in the world to stop farmers selling at that price -- nothing in the world.

Q. Well, we will come back to that again, but if there were an open market in Canada and freight rates were increased 12¢ to me from Regina to the Head of the Lakes, would I be recouped by an immediate increase in the price of wheat 12¢ at Fort William?

A. That was precisely what happened in the only case in modern history in which freight rates were altered on wheat for---

Q. On the basis of that, then, Mr. Armstrong, you would say that that is what would happen again?

A. I am quite certain that in market conditions in general, certainly if the market is a weak one, in the

direction of its being a poor market for the farmer, that would occur.

Q. That would occur?

A. Yes.

Q. It would go up 12¢?

A. Yes.

THE CHAIRMAN: Q. Just what would occur?

A. The price of wheat would rise by the amount of the increase in freight rates, which Mr. MacPherson has fixed at 12¢.

THE CHAIRMAN: I just wanted to make sure of that.

MR MACPHERSON: Q. Now I am going to put another problem to you. I was putting the suggestion to you that if I were the farmer in Saskatchewan shipping the price would go up 12¢. Now I am going to take this proposition: There are three of us farmers, Mr. Shepard from Manitoba, myself from Saskatchewan and Mr. Frawley from Alberta. Now, if Mr. Shepard ships his grain, his freight rate goes up 8.4¢ a bushel, on my assumption of a 12¢ increase; mine goes up 12¢ a bushel; Mr. Frawley's goes up 15.6¢ a bushel. What does the Fort William price go up?

A. The Fort William price goes up by the amount of the freight rate increase -- by the amount of the freight rate increase which was granted, which will be different, as you will notice, sir, from Mr. Shepard's shipping point, from your shipping point and from Mr. Frawley's shipping point.

Q. Now, is that a practical thing? Are you going to get a price, a separate price for Mr. Frawley and a separate price for Mr. Shepard and a separate price for myself at Fort William?

A. But you get it today, Mr. MacPherson.

Q. We get it today---

A. Well, if you increase the price---

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Q. Just a moment.

A. If you increase the price at all these three points by the same amount, you will still have three different prices.

Q. Three prices. Now you are talking of prices by way of return to the producer?

A. You have three different prices at three different stations. Tomorrow if you increase the freight rates and that causes an increase in the price at Fort William, you will then have three different prices at three different stations, exactly as you have three different prices at those three different stations today.

Q. How are you going to take care of Mr. Frawley's 3-3/4¢ more than mine in that price?

A. Just as you take care of it now. Mr. Frawley now pays 3.6¢ more than you do, and he will then continue to pay 3.6¢. I don't have to do anything about it.

Q. Let us figure it out. We will say the price is \$1.50?

A. Fort William.

Q. Fort William.

A. Yes.

Q. Now, the return to me on the present basis would be \$1.38?

A. Yes, sir.

Q. Increase the rate, and the return to me would be \$1.26 ?

A. Wait a minute. Increase the rate?

Q. 12¢.

A. 12¢, and add that on \$1.38; I get more than \$1.26; I get \$1.40 (sic).

Q. You are adding it on.

A. Now, it is \$1.38 you are getting now.

CHAPTER I

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Q. What I am trying to find out is, Mr. Armstrong -- you have got one Fort William price for wheat, haven't you?

A. Yes.

Q. And we will say it is \$1.50?

A. Yes.

Q. Now, my freight rate today is 12¢?

A. Yes.

Q. So my return would be \$1.38?

A. Yes.

Q. My freight rate if it were doubled would be 24¢, so my return would be \$1.26?

A. Yes.

Q. That is what I would get net?

A. Wait a minute. You are leaving out the first part and the essential part of it, that if I am right, my argument is that the Fort William price is increased to \$1.62. If you take 24¢ from \$1.62 you will get the same \$1.38 that you are getting now.

Q. All right; the Fort William price is \$1.62?

A. Yes.

Q. The Fort William price is \$1.62, and it is the same price that you reckon on whether it is bought in Manitoba or Alberta or Saskatchewan; it is the same Fort William price, I mean?

A. Yes.

Q. Then that is \$1.62. Now, it was \$1.50 that we started with. The Manitoba man would have been paying 8.4¢ per bushel, which would mean that he would be getting \$1.41-3/4?

A. \$1.41.6.

Q. Yes. So that actually he would be getting \$1.62, then, the Fort William price, wouldn't he?

A. If I am right, and the freight rate is increased 12¢, and the price was \$1.50, he would now be getting \$1.62 at Fort

William, and he will be getting at the farm \$1.62 Fort William less 8.4¢, which will be the same -- I beg your pardon, less 16.8¢ now, because his freight rate has doubled, and he will therefore be getting the same amount of money at the farm tomorrow as he was getting yesterday, and so will Mr. Frawley.

COMMISSIONER ANGUS: Q. Mr. Armstrong, are you considering an increase from every point of the same number of cents, or are you considering a percentage increase of the rate from all points?

A. It has to be an increase from every point of the same number of cents, sir, if my argument is right.

Q. I think Mr. MacPherson is arguing if the rate was doubled; it would be a hundred per cent increase in the rate.

A. I think Mr. MacPherson does not understand this, and I am trying to clear him up, if you would permit me to put my version.

MR MACPHERSON: Q. Yes, I will permit you to put your figures, starting on one Fort William price.

A. Now, we will take date A and date B, the two different dates. Now, on date A the price at Fort William was \$1.50.

(Page 18302 follows)

Could I use a 9 cent point so as to avoid decimals?

Q. Yes.

A. Therefore the price at a 9 cent point, a point at which the rate was now 9 cents, to Fort William was \$1.41. That is right. You double the freight rate so that that becomes an 18 cent point and the price at Fort William has gone up to \$1.62. What is the man getting now?

Q. The man in Manitoba was getting \$1.50 less 8-1/2 cents.

A. I said 9, but still --

Q. It will be \$1.41-3/4?

A. Yes.

Q. That is what he would be getting if you put his price up to \$1.62?

A. At Fort William.

Q. At Fort William?

A. Yes.

Q. And then you deduct from that 17 cents, so he is getting \$1.45, which means that the increase in freight rates is going to give a 4 cent advantage to the man in Winnipeg. If your theory be right he is going to get 4 cents a bushel more than he is getting now?

A. Let us go on with your case.

Q. I am getting the same, in the middle; with the 12 cents, according to your theory, I will be getting the same. I suggest that Mr. Shepard should be on your band wagon because he will be getting 4 cents a bushel more. I also suggest by the same reasoning that if you deal with Mr. Frawley so that he will not be hurt, then I will be getting more by virtue of the increase and Shepard will be getting much more?

A. The farmers in Western Canada as a whole will

still be getting a good price for their wheat.

MR. FRAWLEY: Surely; everybody but Alberta.

THE WITNESS: Alberta will be shipping to Vancouver.

MR. FRAWLEY: Oh, I see.

MR. MacPHERSON: Q. The net result -- and I put it to you -- is this, that if your theory is right, then with a single price at Fort William, if you are not going to hurt the Alberta farmer, he will get exactly the same return that he is getting now and we in Saskatchewan and Mr. Shepard and his friends in Manitoba will get considerably more?

A. The subject will have to be dealt with, as has been pointed out a dozen times, by the Board of Transport Commissioners. Do you propose to appeal to them on that ground?

Q. No, I am just trying to assess what the result is of the application of your theory, Mr. Armstrong, exactly as you have it, that the importer pays the freight rate and then to see how it works out in Western Canada.

A. I understand.

Q. If you are going to pay Alberta, which is at the apex, an amount which will give us the exact return it has now, then I suggest to you that we in Saskatchewan and particularly those in Manitoba will appreciably benefit by an increase in freight rates.

A. The objection to that is what?

Q. Well, the objection is that I do not think it is practicable at all. You think it is?

A. What will happen? Anything that happens is practicable. You have demonstrated what would happen, so it is practicable.

Q. You agree now that what I suggest would happen

would still happen?

MR. SINCLAIR: If your facts in question are correct.

MR. MacPHERSON: Q. What do you say?

A. Taking your \$1.50 and your 12 cents, yes, that would happen.

Q. So that we will have a situation in Western Canada where the man at the apex will be directly assisting the man in the centre and the man at the extreme end?

A. No. You have a situation in Western Canada in which the foreign buyer would have contributed to prevent his losing any money and give you something extra; and Mr. Shepard --he has not lost anything.

Q. You are assuming that the Liverpool buyer will, without question, accept that increase which I have assumed?

A. That is the basis of the assumption, of course; that is the basis of the argument. If he does that, then we are leaving Mr. Frawley not hurt, and you are getting some manna from heaven and Mr. Shepard a little bit more.

THE CHAIRMAN: Are you not now on the long and short aspect of it?

MR. MacPHERSON: No, not so much, my lord. What I am saying is this. If Mr. Armstrong's theory is right, that the importer pays all -- and I say if he is right; I do not agree that he is -- then the quicker we in Saskatchewan get a substantial increase, the better; because they have got to take care of the Alberta farmer. There is a single Fort William price and our return in currency would be more than it is now.

MR. FRAWLEY: Nonsense.

MR. MacPHERSON: It is not just so much nonsense; it is arithmetic.

THE CHAIRMAN: According to Mr. Armstrong, if the importer or the farmer would have to pay for the increase in freight rates, he must be paying the present freight rates.

MR. MacPHERSON: That is right; and he would be paying the freight rates doubled as well.

THE CHAIRMAN: Then the allotment among you three would be one of proportion according to your distance.

MR. MacPHERSON: No, the average.

THE CHAIRMAN: What would come off the price you would get at your own station.

MR. MacPHERSON: Yes; what would come off the price at my station would be 24 cents. What would come off the price at Mr. Frawley's station would be 31-1/2 cents.

THE CHAIRMAN: The 12 cents comes off your price; about 16 cents off Mr. Frawley's.

MR. MacPHERSON: That is right. I benefit. It is the one price.

THE CHAIRMAN: The proportion remains the same but the number of cents is doubled.

MR. MacPHERSON: That is right. But there is one Fort William price; and I establish that price or Mr. Frawley, since he is the furthest away, would be establishing it.

THE WITNESS: May I comment on that?

THE CHAIRMAN: That is if the freight rates continue as they are today?

MR. MacPHERSON: Yes.

THE CHAIRMAN: Regardless of the extent of the haul?

MR. MacPHERSON: Yes. What I am saying is this.

Accepting Mr. Armstrong's argument that, according to his theory, a moderate increase can be forgotten, that producers will not be hurt, then you have got to take the position of the producer that is farthest away, the producer in Alberta in this instance; and if he is not going to be hurt, get less than he would be getting without an increase, then it means that those in Saskatchewan and those in Manitoba would get more.

MR. FRAWLEY: By a mere increase in freight rates?

MR. MacPHERSON: By merely increasing the freight rates.

THE CHAIRMAN: Is that not another form of the question you have in Algoma and Hamilton and the Montreal market?

THE WITNESS: The same thing.

THE CHAIRMAN: And when you increase it horizontally by a certain percentage you take more actual money out of the Algoma man than you do out of the Hamilton man.

MR. MacPHERSON: It means that in this case -- and my friends support the idea of a horizontal increase-- that it would result in taking care of Mr. Frawley with one Fort William price; you could not have a separate Fort William price for each province. With one Fort William price it would result in an increase in freight rates and taking care of the man in Alberta, and that we in Saskatchewan and particularly the people in Manitoba would benefit in the net proceeds and currency that we would take in.

THE WITNESS: May I offer an answer to that?

MR. MacPHERSON: Yes.

THE WITNESS: What Mr. MacPherson is arguing

means that the world would continue just the same as it is today; that is all. The world would continue just like it is today.

MR. MacPHERSON: Q. Is it not, or what is going to happen?

A. The Saskatchewan man today gets more at his station than the Manitoba man -- I mean less at his station than the Manitoba man; the Alberta man gets less than the Saskatchewan man. That happens to be the fact that arises from geography. If you change the situation, you are still going to leave it that way. I do not know what we can do about it except to say that that is the inevitable consequence of geography. Mr. Frawley is not going to lose any money, I hope.

Q. That is what I am saying.

A. I hope Mr. Frawley is not going to lose any money. I do not think he is. I think that the Fort William price is going to increase enough to take care of Mr. Frawley.

THE CHAIRMAN: What we are trying to explore is whether he does or not at this phase of the question.

MR. MacPHERSON: Yes. I am only trying --

THE CHAIRMAN: I was speaking to Mr. Armstrong.

MR. MacPHERSON: Q. I was trying to reduce the argument or theory of the witness to its logical probability. That is all I am trying to do.

A. You see, Mr. MacPherson, when this happened in Chicago and after the abortive attempt to help the farmer by reducing freight rates, the freight rates were increased and all the consequences which you describe happened in the western United States. But

that left the farmer farthest away no worse off.

Q. Just a word about this incident in Chicago that you have spoken of. What was the condition in the Chicago market at that time?

A. I gave it, sir.

(Page 18310 follows)

Q. I know, but was it a normal condition?

A. Actually, a quite normal condition with the hard times in the world, people were thinking the world was going to come to an end. The only condition of the market that I can describe to you is to give the market prices as they had been prevailing. Now, I can tell you that the market had been acting remarkably stable with a declining trend before that for some time. In March the price had fallen -- let me see if I have the same grade of wheat -- yes, in March the price had fallen slowly from \$1.24-3/4 to \$1.18. That was in March 1929. In April 1929 the decline continued to \$1.14, and that decline stopped, as far as any recorded price is concerned, about the 4th of April. From then till the end of April the market was remarkably stable. It varied from \$1.05 to \$1.07.

Then the day after the freight rate decrease was put into effect it dropped to 98 cents.

Q.
THE CHAIRMAN: / What assurance have you that it dropped because of the freight rate change?

A. It had not dropped, it had stabilized before that for several weeks.

Q. You assume because it happened after it did not happen on account of it?

A. Having fallen the day after the freight rate decrease, having fallen that day, it then proceeded on a rising market because the whole world market began to rise again.

Q.
THE CHAIRMAN: / You would not say it was because the freight rates had been reduced?

A. It could not have gone up 43 cents because of

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a freight rate reduction of 6¢ a bushel.

THE CHAIRMAN: I am not so sure that these drops and rises go on independent of freight rates.

A. I did not happen to be in the wheat market just then, but if I had been I could have made a lot of money for I was able the afternoon before to deduce that this would occur on the next morning and as it turned out my deduction was correct.

MR. MacPHERSON: Q. You wrote this book, Dr. Swanson and yourself, on wheat. And in it there is a chapter on transportation?

A. Yes. It is not my book any more than it is Dr. Swanson's, we both worked very closely on it.

Q. I will turn to page 256 of the book at the top of the page ^{where} you refer to this incident, which was in 1929, and the book according to its preface was completed in the closing days of 1929.

A. Yes, sir. Of course books take quite a long time to write. I remember that very well, I was just back from England.

Q. You say this about this incident:-

"No better illustration of that has ever been found than by the incident which occurred during the spring of 1929. A panicky feeling pervaded the United States wheat market, and on every side we were told that the American farmer had a block of wheat on hand that he could never hope to sell except at ridiculously low prices. The American Railways under pressure announced that in order to assist the farmer export freight rates would be

reduction of 5% a bushel.
The ... I am not so sure that these
and rises go on independent of freight rates.
A. I did not happen to be in the wheat market then
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reduction was correct.

MR. MURKIN: You wrote this book,
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A. Yes, sir. Of course books take quite a long
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lowered. At once the Chicago market broke by that amount which merely meant that the importer in other countries made the saving."

Now, it was under these circumstances ~~o~~ the panicky feeling pervading the American market that the reduction was granted in freight rates.

Q. A panicky feeling pervading the United States wheat market?

A. That is precisely the point I have tried to press. It has been repeatedly said here and I have not objected to the abbreviation of my remarks, that my statement is that the wheat market will always go down by the amount of a freight rate decrease and always go up by the amount of a freight rate increase.

Now, I was very cautious yesterday in making statements, and I think you will find that I not only there but several times through my statements yesterday I was very careful to point out that my great argument is that the danger of the farmer being hurt by freight rates, a freight rate increase, is at an absolute minimum when the market is very weak. Then when the market is very strong an increase will be borne by the buyer. I want to make it perfectly clear that this is my statement: in a weak market, a buyer's market, any decrease in the cost of transportation will go to the buyer, absolutely the panicky condition to which I was referring in that book, and in a buyer's market, that is a panicky market any decrease in the cost of transportation will go to the buyer and any increase will be paid by the buyer.

If you go to the other extreme of a strong market, that rule is not followed rigidly, the point being that in

the strong market the seller has already got sufficient control of the market, so that he is in no danger of being hurt market-wise, he is in a position to get a good price for his wheat and he will seek to get a good enough price for it including the transportation cost.

THE CHAIRMAN: Q. If the market is high and strong and freight rates are increased who bears the increase?

A. I would be uncertain about that as I stated yesterday, the stronger the market the less likely would it be ...

THE CHAIRMAN: You say there is uncertainty - meaning the shipper might have to bear it?

A. The shipper might have to bear some part of it because in a strong market there is a possibility that some of the increase in transportation costs may be past back to the seller, but in the seller's market the seller is already in a position where we can presume he ~~xxx~~ is already getting a remunerative price for his product, if he is being careful about his selling.

I would like to mention that book on wheat if you don't mind, I would like to stress a point here which is very important and which I hope will be remembered. That book was written by Dr. Swanson and myself in 1928. It involved a lot of work, it involved two trips to Europe and a lot of research, and that book was written for the specific purpose of trying to get a little courage into the Canadian western farmer. What Dr. Swanson and myself saw was the condition that only too tragically developed. We saw the condition because of certain incidents, we saw the condition into which these panicky Americans were developing at that date. Dr. Swanson and myself were perhaps almost alone in announcing that there was no necessity for such a panic over wheat as was developing.

We heard stories of over-production, the world flooded with wheat and so on. I remember speaking to a very distinguished Canadian coming back from India telling me the world was flooded with wheat. I asked him how he knew this and it seems he had been taking a rail trip across India and close to Karachi he had travelled through a piece of country in which he saw some wheat dumped along both sides of the railway so as he said to me the world is flooded with wheat. I asked him how big was the pile and I took a pen and pencil and calculated how many bushels were in that pile which he described and there were something like 120,000 bushels, and the world was flooded with wheat. Wherever I turned I always heard the same, the world was flooded with wheat. As a matter of fact I became very unpopular and discredited because I took the stand that the world is not flooded with wheat, you are talking yourself into a panic. Now may I just finish this one statement? By 1937 Dr. Swanson and myself were justified to the hilt and by 1937 at the end of the crop year the stocks of wheat were the lowest of which we have any record in modern times. The world was not flooded with wheat. It was flooded with panic.

MR. MacPHERSON: Q. That was the motivating influence in 1928?

A. Panic.

Q. My memory certainly plays me false if the story is right, for in Western Canada and throughout this country we had in no sense thrown up the sponge in 1928.

A. I merely ask you to give us the credit which is due us. We saw in 1928 what was developing.

Q. And you were with the Canadian Pacific Railway at that time?

A. If you must insist on my personal history, I was not. I had entered the service of the Canadian Pacific in 1926 on a part-time basis and having become deeply interested in this question of wheat and over what I saw developing in the way of an excessively boom-time mentality which certainly seemed likely to be followed by a crash, I said to Dr. Swanson: Let us write a book about this wheat situation before the panic starts. I went to the Canadian Pacific and by their kindness, it was not actually kindness because I was on a part-time basis I did get permission from them to go about my business and write the book.

Q. I do not want to choke you off at all, but what I want to suggest to you is this: that during that very period 1927, 1928, 1929, that you ^{the Canadian Pacific} speak of/ had not lost heart, they were embarking upon their greatest branch line building program in Western Canada.

A. At that time the Canadian Pacific Railway stopped paying dividends on its common stock.

THE CHAIRMAN: We are trying to establish now that if there should be an increase by doubling of the rates on grain over what they are now and if the whole of the increase should be immediately added to the world price that you nevertheless in various parts of the provinces would be worse off.

(Page 18319 follows)

MR. MACPHERSON: I got off on a tangent about the bulk. But what I was really trying to establish was that the theory of my friend Mr. Armstrong -- which I am sure was given in all sincerity -- was entirely wrong, and it is not practical in the working out of it. I do not think you could possibly have one Fort William price and work it out with an increase of rates to harm no one.

THE CHAIRMAN: But if the Fort William price rises immediately in response to the rise in freight rates and to the same amount, let us suppose as much as 12 cents, and it goes from \$1.50 to \$1.62, so that you are sure it is added to the price, do you argue that you would still be worse off because the incidence you have to bear would be greater in cents than it is today?

MR. MACPHERSON: Yes.

THE CHAIRMAN: And Mr. Frawley would still be worse off?

MR. MACPHERSON: Yes.

MR. FRAWLEY: Yes, as always!

COMMISSIONER ANGUS: Q. Are you not adding to what you said yesterday: that if the freight rates go up the prices will go up by the same amount as well?

A. Yes.

Q. Are you not adding to that by the amount of the freight from the most distant point in the area?

It must be by an amount from some point?

A. You get into a very complex question of marketing at that point, and what fixes the price, assuming the marginal producer fixes the price, for the purpose of this argument, and that is a pretty well established theory.

The freight rate increase is accorded to by the buyer, otherwise the buyer is not going to get any wheat at all.

There are plenty of "Mr. Frawleys" in Alberta; and if you drove the whole province of Alberta out of the market, you would create quite a different situation.

Q. But you are adding to what you said yesterday?

A. On the general theory of prices, yes, that the marginal producer is the man who, in the end, must complete the price fixing function.

MR. MACPHERSON: Q. You regard the man in Alberta as the producer in this instance?

A. Yes. But remember, of course, that Alberta ought to be going out by Vancouver, and that the man at Maple Creek is the real marginal producer.

THE CHAIRMAN: Q. Are you not using "man" in the wrong sense?

A. He is the marginal producer. He is the man who is not going to benefit. Marginal producers do not benefit in that case. He will be left where he is.

What you are trying to prove is, that if I am right -- and it seemed to be in accordance with the accepted economic theory, and I think that all the textbooks that I have ever seen will bear me out in that -- if I am right, then, as a result of this change in market and freight rate conditions, you will make a nice bonus by being much closer to Liverpool, and Mr. Shepard says he will make a larger one.

I say: Why not. I do not want Mr. Frawley to be hurt. But he is closer to Vancouver.

Q. MR. MACPHERSON Q. In the result, if this increase is granted according to your theory, it is to my

advantage in Regina, and it is of greater advantage to Manitoba?

A. I hope so.

Q. And Mr. Frawley will be just getting by?

A. No, Mr. Frawley is tributary to this picture.

Q. You know that in the very nature of things, much Alberta wheat has to move east to be in a position, having regard to markets?

A. I went to a lot of trouble yesterday to point out that the Agricultural Prices Support Board pays the additional freight cost which is involved in that movement.

Q. That will be questioned.

A. I am sorry.

Q. We will question it. I do not propose to give it to you now; but we will deal with it again.

A. I went to the highest authority for that information.

Q. You went to the highest authority; but in any event, it is a fact that the movement from Alberta, although it may be closer to Vancouver, is due to the necessity in marketing of getting wheat in position.

A. There are certain occasions when, for certain grades of wheat, it is the policy of the Wheat Board to move it east at the present time instead of west, even though the freight rate is higher.

Q. And even if there was no Wheat Board, the same situation would exist?

A. Yes.

Q. If the price went up 12 cents, as you suggest it would, reasonably, then would that go up for the Regina farmer as well?

A. You are up against an awfully big argument here, and I don't think I should be asked to make a short answer.

Q. Well, I do not want a long one.

THE CHAIRMAN: Q. Would the result be a "Yes" or a "No"?

A. I am sorry. The result would be yes or no.

What I wish to say is that Mr. MacPherson is suffering from a very general misconception which exists in Western Canada.

MR. MACPHERSON: Everybody was under a misconception in 1928 except you and Dr. Swanson.

A. And we were proven to be right.

But there is a very great misconception that the Liverpool market, when it was open -- and the British Government received a report recently from a parliamentary committee that it be re-opened; I do not know what they are going to do -- but when it was open, the feeling was that it operated with the same precision and exactitude as the Winnipeg Grain Exchange, where you have a system of government grading which guarantees the quality and the standardization of the quality of the wheat, and where we have rigidly controlled regulations of all kinds.

That mechanism, with all respect to those who thought that it was a gambling house, worked with great exactitude and precision. It worked like clockwork.

Q. And you favour it as a system of marketing?

A. I am not prepared to argue that at the moment.

Q. All right.

A. But Liverpool was never like that. Liverpool

was never like that. Liverpool was a sample market, a hit or miss market in which a lot of ingenious people operated with a great deal of skill.

I have seen a time in Liverpool when two cargoes of Canadian wheat of exactly identical grading were sold, and one of them was bought in for less than the other. You could not have that happen in Western Canada, but in Liverpool you could do it because there was no regulation to stop it.

Similarly, in Liverpool they will buy from the Argentine, or at least they used to do so before Senor Peron became a little self-important. Before then they used to buy from the Argentine always more cheaply, grade for grade, than they did from the Canadians.

It is a very flexible market, so you cannot lay down a fixed rule that because the Fort William price goes up, therefore, the Buenos Aires price goes up too.

Q. But did it tend to go up?

A. Yes.

Q. And would it tend to go up by almost the same amount?

A. Well, you cannot have a tendency to almost the same amount, but there would be a tendency.

Q. Consequently every freight rate increase in the United States would be accompanied by a weak increase in the Chicago market?

A. That happens regularly in a falling market.

Q. For instance, freight rates were increased according to page 90 of the Appendix to Part I; this

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says that Whately starts at 40 and there was a drop, and it came along; I do not see the six cents. They did not have the six cent drop in 1929. It is not recorded there.

A. Might I record it now in detail? I can prove it.

Q. I am not questioning it. I simply say it is not recorded. I am satisfied that there was an emergency rate.

A. I see.

Q. But then you say that starting in 1937 there was a gradual stepping up of freight rates. Now, can we say that with each/in ^{increase} the freight rates, there was, at the same time, an equal increase in the price of wheat on the Chicago Exchange?

A. May I point to this data for your information. You will notice that this increase -- it would be very difficult for me to find that increase in the freight rates because it was so small. The special increases start here, and they start there in 1943, 1944 and 1946. That is where the special increase starts.

Would you suggest that for any practical purpose the Chicago wheat market has been open, an exchange openly operated without governmental intervention since 1946? I am sure it has not been.

That point is raised in several places against our argument that the United States has a wheat policy which practically amounts to subsidizing and controlling prices.

I cannot tell you what would have happened in an open market.

Q. You were telling us yesterday that the wheat Chicago/market is an open market, were you not?

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A. It is an open market with governmental intervention. I do not think anybody would suggest it was an open market in the economic sense.

Q. In any event, Mr. Armstrong, it did not occur to you then to even bother about checking the increases in freight rates in the United States and seeing what the results were?

A. I would be totally uninterested in what would happen in the matter of price reflection of such conditions in the Chicago market since 1946 -- totally uninterested.

Q. And you pin your whole faith to your argument on the basis of that one incident in 1929?

A. In an absolutely open market.

Q. In a time of panic?

A. In an absolutely open market. Once again, the time of panic is the most important thing in my argument. It is precisely in the time of panic that that effect is most certain.

COMMISSIONER INNIS: Q. I wanted to ask, Mr. Armstrong -- this is merely a matter of information -- whether your book to stop panics did anything to accentuate the panic?

A. I can only say, sir, that one of the gentlemen who was most active in criticizing our theories at the time has been kind enough to say to me within the last three months that he thought at that time that I was crazy, and he had come to the conclusion he had been crazy ever since.

MR MACPHERSON: After the book came the deluge.

THE WITNESS: After the book came the deluge. We were swept away like straws in a gale.

THE CHAIRMAN: Q. The deluge did not come on account of the book, did it?

A. I hope not.

MR MACPHERSON: Just coincidental.

THE CHAIRMAN: Q. Because you think the climb in wheat prices came on account of the reduction?

A. I hope it did not, sir.

MR MACPHERSON: Q. Now, Mr. Armstrong, we will go to another subject, and that is the subject of the marginal producers. Who do you regard as the marginal producer?

THE CHAIRMAN: We are told that would be the Swift Current man. I am not joking. If you name him -- I have always understood that the sub-marginal or marginal man was the man who was trying to grow wheat where he should not be growing wheat.

MR MACPHERSON: That was my understanding.

THE CHAIRMAN: There is no reason why you might not grow wheat at Maple Creek, you see.

THE WITNESS: The point is, sir, that Maple Creek was only mentioned because of its being marginal from the freight rate standpoint, not as marginal in the broad sense in which that language is used.

THE CHAIRMAN: Now, we have the other man, the man who is growing wheat on undesirable land, and you told us yesterday that he would be hurt, or probably hurt, by an increase in freight rates. I would like you to explain that. That is what you are after?

MR MACPHERSON: That is what I am after, my lord.

THE WITNESS: I am very glad, sir, that this question of the marginal producer has turned up, and I wish I could find it in my transcript.

MR MACPHERSON: Q. I will read it to you. It is at page 18061. You were asked this question, Mr. Armstrong:

"Now, Mr. Armstrong, would you think that unduly

for a

1. 1940-1941 : 1940-1941

low transportation costs on grain would keep sub-marginal producers active in the growing of grain?

A. You have opened a whole Pandora's box of troubles here. Yes; yes. A subsidy of any kind to production tends to keep marginal producers in production.

Q. So that if the Crows Nest rates are lower than they should be it would have some effect on sub-marginal producers of grain in Western Canada?

A. Well, those of us -- and I think there are many here -- who know the prairie conditions well, realize of course very fully the situation. The whole economy, the whole sociology of the prairies, like every other rural area today in the world, is influenced by the presence of an unnecessarily large number of sub-marginal producers, and they can be a very serious factor in the market."

That was what you said yesterday.

A. You will notice no admission at all in there -- it would be an awful mistake to try to draw in there -- certainly I must ask that it be not put into there, any admission that this occurs in those periods of distress in which I argued basically that any attempt to pay an export bounty by means of the unduly low freight rates would be self-defeating, that it would not work. That bounty would go to the foreign buyer and not to the Canadian farmer, so therefore the only case in which there can be an effect on the marginal farmer of an increase or decrease of transportation charges can be at the other end of the market, in the strong market. Now, may I point out just exactly what does happen? We know, we all know, what happens. The marginal farmer tends to come in at the top of the market, and that is the very time when any in-

The first thing I noticed when I stepped out of the car was the cold. It was a sharp, biting cold that seemed to penetrate to the bone. I shivered as I walked towards the building, my hands tucked into my pockets. The air was thick with the scent of coal and the distant hum of machinery. I had heard that the factory was a place of wonders, a place where the future was being born. But now, standing in the doorway, I felt like a small, insignificant speck in a vast, cold universe. The interior was a maze of steel and iron, with rows of machines stretching into the distance. The light was dim, coming from small, flickering lamps that cast long, dark shadows. I followed a path that seemed to lead to a large, open hall. In the center of the hall stood a massive machine, its gears and pistons visible. It was a marvel of engineering, a testament to human ingenuity. But as I looked closer, I saw the sweat and grime on the workers' faces. They were hunched over their work, their movements precise and efficient. I felt a pang of sympathy for them, for the long hours and the harsh conditions. But then I thought of the money I would earn, of the life I would have. I took a deep breath and stepped forward, ready to embrace the future.

crease, any bounty, any export bounty, whether by freight rates or otherwise, is of benefit to him. That is exactly the time he tends to come into the market. When you get down to $38\frac{1}{2}\phi$ wheat no marginal farmers are coming in; they are being driven out by other forces than freight rates altogether. So I wish to be very clear about that. I am not suggesting for one moment -- I am not admitting, instead of suggesting, for one moment -- that there is any contradiction between my statement in regard to marginal farmers and my basic statement that in a buyer's market any attempt to pay an export bounty is self-defeating. You are only going to be helping the marginal farmer into the market when the market is very strong and very high, and one of the tragedies of our western situation is exactly that, that any benefit that goes to the farmer from decreased freight rates goes to all farmers at a time when the market is very high, and at that time there is apt to be an inrush of marginal farmers into operation, who then remain to be squeezed out as the market goes down, and not squeezed out by freight rates, squeezed out by the general economic conditions.

Q. Mr. Armstrong, there are two points involved in these questions that you answered yesterday at page 18061. You will note your answer when the question was put by Mr. Sinclair:

"Q. Now, Mr. Armstrong, would you think that unduly low transportation costs on grain would keep sub-marginal producers active in the growing of grain?

A. You have opened a whole Pandora's box of troubles here."

And then you say:

"Yes; yes."

Not once, but twice. And then:

"A subsidy of any kind to production tends to keep marginal producers in production."

Now, your point is that the existence of the Crows Nest rates is keeping these marginal producers in production?

A. Wait a minute, Mr. MacPherson. A bounty, a subsidy of any kind, can only keep people in production if it is received. No subsidy of any kind is obtained by any farmer, marginal or otherwise, in a buyer's market condition from the Crows Nest rates. Therefore you can wipe out -- perhaps I might have argued that point yesterday, but I did not want to prolong that argument. I thought I would be clearly understood. I have said basically that in a buyer's market there is no way of subsidizing the western farmer by a reduction in freight rates.

Q. Turn over the page, Mr. Armstrong, and see what you said yesterday at the end of the question at the top of page 18062:

" . . . sub-marginal producers should not be encouraged to grow wheat by uneconomic devices such as export bounties. Of course, these rates, you understand, are an export bounty; the fact that these rates are below the normal level is an export bounty."

A. May I point out, Mr. MacPherson, that the qualification is quite obvious and quite reasonable, and I am quite prepared to stand by that, in the hope that every person of good will will clearly understand that when I say that an export bounty is bad, I mean an export bounty which is effective and is received. An export bounty which does not go into the pockets of the farmer is not an export bounty.

THE CHAIRMAN: Pardon me. Would you read that last part again?

MR MACPHERSON: The last part, my lord:

" . . . sub-marginal producers should not be encouraged to grow wheat by uneconomic devices such as export bounties. Of course, these rates, you understand, are an export bounty."

THE CHAIRMAN: Q. What about that, Mr. Armstrong?

A. I would have thought, sir, that it would have been clearly understood that these rates are an attempt to pay an export bounty which fails to be successful in a buyer's market, having laid that as the whole basis of my argument at the very beginning. I might have been wiser if I had said yesterday -- I might have added a few more paragraphs. I might have said then -- I am sorry, of course -- you must understand that this does not apply to a self-defeating attempt to pay an export bounty, such as unduly low freight rates during a buyer's market.

COMMISSIONER ANGUS: Q. Mr. Armstrong, do you say increased freight rates operate as an export bounty in the case of the people who are not at the furthest extreme of the zone? I mean, the sub-marginal man who is nearest to Fort William will be getting a higher price than before for his wheat?

A. It could conceivably happen, sir. Like the poor, the sub-marginal farmers are always with us, and we have that problem wherever we turn. I am not suggesting that we ought to refuse Mr. Shepard an opportunity to increase his income as a normal consequence of his geographical position, because there might be some sub-marginal farmers in his neighbourhood, you see. I cannot refine my policy to that point, I am sorry.

MR MACPHERSON: Q. The second point that I wanted to refer to in that statement of yours:

" . . . an unnecessarily large number of sub-marginal producers, and they can be a very serious factor in

... should not be ...
... of ... such as ...
... Of course, this ... you understand, the ...
... expert ...

... I ... that, Mr. ...
... have ... it would ...
... which ...
... first as to ...
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the market."

You recognize that there is an unnecessarily large number of sub-marginal producers now?

A. If there is one it is unnecessarily large.

Q. Oh, well, now, don't---

A. I am sorry.

Q. If there is one, would you, the authority that you are, have stressed the one to the point you did in your evidence yesterday?

A. There are not many sub-marginal farmers; in fact, I stated that somewhere, or Mr. Sinclair asked me and I agreed with him, that there were not many.

MR SINCLAIR: I am trying to find the place in the transcript. This was discussed somewhere else, and, I thought, clarified.

MR MACPHERSON: I am discussing it here.

Q. Will you look at it again? Unnecessarily large number -- that is more than one?

A. No.

Q. No?

A. I don't know how many sub-marginal farmers there are, but I do know that any that there are, the number is unnecessarily large, and I will stick to that.

Q. I don't want to be unfair to you, Mr. Armstrong---

THE CHAIRMAN: Q. What is the meaning of "unnecessarily large"? That is to say, whom does the sub-marginal farmer injure? Any wheat that he does sell is just wheat, graded the same as all other wheat; there it is.

MR MACPHERSON: I may say Mr. Evans points out to me that Mr. Armstrong later on was asked about it:

"MR SINCLAIR: Of course, we are not suggesting, Dr. Innis, that there is a large marginal production of grain in Western Canada.

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THE WITNESS: Oh, no. There is some."

I am quite ready to put that in, but I am asking Mr. Armstrong for an explanation of these words, "unnecessarily large number".

THE WITNESS: As many as there are, sir.

MR MACPHERSON: Q. I beg your pardon?

A. As many as there are.

Q. Well, now, with the study you have given the matter, how many would think there were?

A. I am sorry, that is a little like asking me how many wicked people there are in this room. Now, there might be a lot or there might be none, you see. I would have to get a definition of wickedness. It is a little difficult. You know, there have been volumes written on this subject; there is a library available for investigation. That is only---

Q. After you have so modestly told us how you forecast what was going to happen in 1929 and 1930, in these years, then I would think, with the study you have given -- and I haven't any doubt that you have given it a great deal of serious and conscientious study -- you might help us by telling us what you mean first of all by "unnecessarily", and then as to the number?

A. "Unnecessarily" means any sub-marginal farmers. As to the number, I would recommend that Dr. McIntosh, I imagine, on that would be a bit of an authority, from Queens; he would be rather an authority, I imagine. There have been many studies made about that, and, you see, always their difficulty is the same thing, sir -- what is sub-marginal, you know. It almost becomes an ethical concept; it is certainly a sociological concept; it is scarcely a definite economic concept. It is very difficult to say who is sub-marginal and who is not. I do know some

of them; I have a couple of friends who are sub-marginal---

THE CHAIRMAN: Q. What harm does he do to anybody except himself? He increases the volume of exports, you mean, and therefore tends to bring down the price?

A. Yes, sir, there is that effect. There are not enough of them to be very---

Q. There would have to be a great number to do that?

A. There are not enough of them to be very effective in that direction. I suppose I have got in the back of my mind a tendency to be soft-hearted sociologically. Economists are not supposed to have sociological opinions, but I am afraid I have got sociological opinions, and it strikes me that the worst danger of the sub-marginal farmer is the sociological danger. He tends to reduce the whole standard of living in his neighbourhood, you see.

Q. You mean he is the first man to go on relief?

A. The first man to go on relief, sir -- and how!

MR MACPHERSON: Q. Mr. Armstrong, on that point, did the C.P.R. discourage people from going out and going on to this land, to your knowledge?

A. The Canadian Pacific has, to the best of my knowledge -- I have never had any close connection with their immigration policy -- actively encouraged immigration and land settlement in Western Canada. As I say, I never was an authority on that.

Q. Do you know whether they sold any of their lands, any sub-marginal land?

A. I haven't any doubt that when you come to deal with the large amount of land involved and the large activities that there may have been cases in which land was sold to people which it would have been better if it had not been sold to people. I would like to know, of course; I would have to judge each case, have to know the

history of each case.

THE CHAIRMAN: For our purposes now, is there any use in our discussing this unfortunate sub-marginal farmer at any greater length, unless to show that the shipper does bear the increase of the freight rates?

MR MACPHERSON: That is what I have been trying to find out from Mr. Armstrong.

THE CHAIRMAN: This poor farmer is the first to feel it---

MR MACPHERSON: What I am trying to find out is how many there are and why it is unnecessarily large.

Q. You cannot give me any more information?

A. Oh, no, no.

THE CHAIRMAN: Well, we will come back in a little while.

(Recess)

MR MACPHERSON: Q. Mr. Armstrong, this is the last question I am going to put to you in connection with the marginal and sub-marginal producers: You know that the Dominion Government has through the P.F.R.A. and the Provincial Governments through Utilization Boards for the past fifteen years been trying to deal with this situation of sub-marginal lands?

A. Yes.

Q. You know that?

A. Yes, oh yes.

Q. And you know that in the Province of Saskatchewan---

THE CHAIRMAN: You mean by reclaiming?

MR MACPHERSON: Yes; community pastures and that sort of thing.

Q. In the Province of Saskatchewan is it within your

knowledge that today some 600,000 acres of land are in community pastures?

A. Yes, sir, I have been told that.

Q. Land which was once farmed, much of it, and land which may have been, some of it, once owned by the Canadian Pacific Railway, and so on?

A. It could easily be, sir.

Q. It could easily be, yes. Now, there are two terms that I would like to have you define and clear up for us -- the buyer's market and the seller's market. What is a buyer's market?

A. A perfect buyer's market is when my Widow Jones only has one person who will buy her eggs from her, and the price gets driven down to the point at which if it were to go down any more she would go out of business. That is the perfect buyer's market. The perfect seller's market is the one which so seldom happens, in which the Widow Jones could raise the price practically without limit. Now, in between the market moves gradually from the position of being a buyer's market to the position of being a seller's market.

Q. Now, the situation in 1932 that you spoke of either this morning or yesterday afternoon, when wheat went to $38\frac{1}{2}\phi$ Fort William, that was a buyer's market?

A. Oh, I regard that as being practically a perfect buyer's market.

THE CHAIRMAN: What was the condition?

MR MACPHERSON: 1932, my lord, when wheat dropped to $38\frac{1}{2}\phi$ a bushel Fort William. He says that was a perfect buyer's market.

Q. And according to your theory, Mr. Armstrong, if there had been an increase in freight rates then of 12ϕ , it would have been paid by the buyer?

A. I offered a qualification on that point, to which I would like to draw the most careful attention. I pointed out that that buyer's market condition was largely produced by an exaggerated condition of fear -- this business of telling everybody that the world was flooded with wheat and the poor Canadian farmer was going to be starved to death because he would not be able to sell it. Now, that had an effect on the mentality of the sellers, and it caused Canadian farmers to allow themselves to be pushed down to $38\frac{1}{2}\phi$ for a very short time. After that they began to harden their hearts a little bit, and refused to be pushed around quite as much as that, and the market began to rise, went up quite appreciably.

THE CHAIRMAN: Q. What did they do to push themselves up? Refuse to sell?

A. To some extent refused to sell. You know, the effect of general public psychology in a case of that kind is enormous.

THE CHAIRMAN: Yes, but you must not forget, too, that there was government intervention at that time.

MR MACPHERSON: There was government intervention.

THE WITNESS: There was government intervention after some time.

MR MACPHERSON: Q. Mr. Armstrong, notwithstanding the government intervention, notwithstanding the crutch that stabilization offered at that time, prices went down, didn't they?

A. I regard that whole period with the most complete horror, because of its being such an unnecessary panic.

Q. Unnecessary panic?

A. Unnecessary panic.

Q. You do not regard the situation as having been a serious one in the matter of world wheat surplus at all

at that time?

A. Well, that was demonstrated so clearly by the fact that, after all -- 1932, 1933, 1934, 1935, we heard of world wheat surplus endlessly, and you know, that is only a short time in a human life, in the life of the human race. 1937, we ended the year with the smallest year-end stocks on record. So I thought I was justified in my statement then and my statement now that the panic was unnecessary.

(Page 18341 follows)

Q. Apart from you and Dr. Swanson, nearly everyone else in this country in any event believed that there was a serious economic problem in Canada because of wheat surplus and world surplus. You never had any fear of it?

A. No. You see, I went over to Europe at that time more than once. I will give you one incident, for example, to show how unnecessary it was, one little incident. The late George Broomhall -- not the present one, the late George; the present one is only about my age, I suppose; I refer to the father -- he was the most astute, I imagine, observer of wheat that has lived in my time anyway. I was one of his Canadian correspondents and I was on very close terms with him. While abroad, on going into his funny little office in Paradise Lane in Liverpool one morning and talking to him, I learned that he had just got a letter from one of his best European scouts, men he kept wandering around seeing what was happening. This scout pointed out that he had never seen the rickyards in continental Europe so bare.

THE CHAIRMAN: What yards?

A. The rickyards. In Europe the standard custom of growing wheat --

MR. MacPHERSON: What year was that?

A. That would be about 1930 -- no, 1932, I would say, or 1933. He had never seen the rickyards in Europe so bare. Before I say that, I should say that the European rickyard situation is a very important affair. In Europe there are probably 20 million farms outside of Russia which grow wheat. The tradition of growing wheat, the technique of growing wheat and of marketing wheat in Europe is different from that in

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this country. The European farmer grows a little wheat and he draws it into a rickyard and piles it up and he thatches the rick. When he threshes, he threshes from that rick as his convenience is served. I may say that I have had to thresh in more than one European country, for fun; he threshes when he wants to draw wheat to market, the wheat being of a type which is better left in the rick for some time before it is threshed; it threshes much better if it is left to harden in there. He often leaves it there for months on end.

Q. Could you shorten it up a little bit, Mr. Armstrong?

A. I am sorry, but I cannot; I do not like these brief answers.

Q. All right.

A. The five bushels per farm more or less is 100 million bushels. The average stocking of wheat on European farms might easily run to 50 bushels per farm without anybody getting excited about it; and 50 bushels per farm would be a billion bushels. In all studies on wheat which I saw in those areas, only in one or two small articles of my own has any reference been made to that fact. That is not statistically available, that figure. You cannot find out at this moment, even, approximately how much wheat there is in the hands of the European farmers. So all I had to go by was this letter from this veteran and experienced and skilfull observer of Broomhall's, who said that never in his experience had he seen the rickyards so bare. It is quite possible that the world had a billion bushels of wheat short of what the statisticians put in in these figures that were put ^{out} to indicate why the western farmer ought to go broke.

Q. That was in 1932?

Mr. Armstrong, cr-ex

A. Approximately.

Q. In the next year, 1933, there was a world wheat conference in London?

A. No, it was January; I was at it.

Q. Well, there was a conference in London?

A. Yes; there were two.

THE CHAIRMAN: There was one in Rome.

MR. MacPHERSON: Yes, there was one in Rome.

A. That was a preliminary one; and then they adjourned to London and held two imperial wheat conferences.

THE CHAIRMAN: Q. In any case, the panic you are talking about was all-prevalent?

A. Yes, all-prevalent.

Q. The buyers had the same panic as the sellers had?

A. I am sorry, sir, but I should like to offer a little doubt on that point. A couple of very hardy friends of mine, who are English millers, were not scared about it. They were chuckling to think about the fact that they were buying wheat cheaply at a time when they fully expected that they would have to pay a good price for it.

MR. MacPHERSON: Were you in France at that time?

A. I made a couple of visits to France.

Q. Did you not find that the French government was much concerned because of the surplus they had in France?

A. The French government was concerned; when a thing of this kind becomes popular, almost everybody takes it up.

Q. Let us deal with facts. Did they not have to

pay an export subsidy in order to encourage export?

A. They had a couple of good crops there that year and they did subsidize some exports, yes.

Q. Did they not buy a great deal of their wheat?

A. Yes.

Q. And feed a great deal of their wheat to cattle?

A. Yes.

Q. And is there not a situation which is evident in one of these exhibits, Exhibit 212,^{which} shows what was fed to livestock in the United States in 1930, 1931, 1932; up to 173 million bushels fed to livestock in 1932?

A. It paid better than to export it.

Q. Oh, it paid better than to export it; that was one way that the London wheat conference sought to eliminate the world-wide surplus, is that not right?

A. No, sir ; I am not denying any of these facts. These are matters of record.

Q. You have told us about the buyers' market and you have told us about the sellers' market. Is there ever a normal market?

THE CHAIRMAN: Is there ever what?

MR. MacPHERSON: A normal market, my lord.

Q. Is there such a thing as normalcy in marketing?

A. I really do not understand the concept. It is beyond me. I am not able to deal with that.

Q. There is either one or the other, either a buyers' market or a sellers' market.

A. The market at any given moment used to be reflected so beautifully on the floor of the Winnipeg Grain Exchange --

Q. I know.

A. -- where I was allowed to go on the floor

whenever I was in Winnipeg in those days. It was beautifully reflected. One minute the market was going up a little bit, and another minute the market was going down a little bit. But as to stability in a market -- well, I do not get the concept.

Q. You think it is an excellent means of marketing grain, through the Grain Exchange?

A. That is a matter which people had to choose about. I am not a member of the Winnipeg Grain Exchange.

But about all I remember about the Winnipeg Grain Exchange is that I lost some money there.

Q. Is there any normalcy at all in the wheat trade?

A. There could not be at any moment.

Q. I beg your pardon?

A. There cannot be in the world such a thing as I would call normalcy.

THE CHAIRMAN: Q. You interjected something that you were not asked for. You said you made money or lost money.

A. No; I was saying about the Winnipeg Grain Exchange that my chief memory of the place is that I used to go on the floor there and speculate a little bit. I did that, I give you my word, sir -- and I hope I will be protected on this point, particularly by the press -- in the most honourable spirit. I did that as part of my education as a student of wheat. I did not imagine for a moment that I was going to retire rich. I used to play little quantities of wheat then.

and over the long pull I suppose I came out with a little more than I put in; I think so.

Q. That adds to the value of your book?

A. That adds to the value of my book. That is my recollection of the Winnipeg Grain Exchange.

MR. MacPHERSON: Q. In any event, we are not settling the question of the Grain Exchange. What I suggest to you is this, that you could have been a very rich man if you had used your ability to see into the future. But you did not do that.

A. Oh, Mr. MacPherson, marketwise I have no ability to see into the future. My experience is always the same, that the more you know about a subject, the less likely you are to make any money by speculating on that point.

Q. You tell us then that, as far as normalcy is concerned, you do not recognize that condition at all in the grain market?

A. My brain does not register that concept.

Q. It does not register at all with you. We will just come back for a moment and I want this cleared up for the record; on that day in 1932, when wheat did go to 38-1/2 cents, if there had been an increase in freight rates then, the buyer would have paid it?

A. You have to run up against realities in life occasionally; and when that was asked yesterday -- I think it was yesterday -- I laid some stress on this fact, that had I been the dictator at that moment and had been given the opportunity to raise the rate, and if I had owned the Canadian Pacific Railway outright so that all the money would have gone into my pocket, I would consider it a most unwise policy at that moment.

THE CHAIRMAN: Q. To increase the rate?

A. To increase the rate; despite the fact that I am quite certain that it would have been the ideal example of increasing it at the rate of the foreign buyer. My point is this, that we were in that horrible panic of which I have talked, and I cannot imagine

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anything worse for the morale of the western farmer, which was already very low at that moment, than for the Canadian Pacific Railway to try to increase freight rates. I would have thought that would be a desperately unwise thing to do, for psychological reasons, if you follow me.

MR. MacPHERSON: Q. You have not answered my question. My question was this. Abandoning all your sociological views in this connection, if freight rates had been increased at that time, who would have paid the increase?

A. My opinion which I once again wish to make perfectly clear, is that if they had been increased at that time, there could be no doubt that the buyer would have paid the increase. But there can equally be little doubt that the over-all effect on the marketing of the Western Canadian crop would have been disadvantageous because of the sociological shock.

Q. But the buyer would have paid it?

A. Yes.

Q. You realize that there probably never was a time in Western Canada when there was more distress selling of wheat than there was then?

A. That is exactly why the buyer would have paid it.

Q. The distress selling of wheat, the fact that they had to sell it at any price, would not vary your original conception of who would pay the freight?

A. No; because at that point the 38-1/2 cent price represented, as far as I am concerned, the irreducible minimum. I did not think the market could get below that. It did not, anyhow, and that is my evidence that it was the bottom of a buyer's market.

Q. You do recognize the Crows Nest rates as a subsidy to the western farmer?

A. An attempt at a subsidy, which is self-defeating.

Q. You have used certain terms in this connection. You have called it a clumsy, inadequate method of giving assistance.

A. Yes, an attempt -- really an attempt to give assistance.

Q. You are changing that?

A. It is a clumsy, inadequate attempt to give assistance.

Q. At page 18105, as you are there reported, you say:

"Abnormally low freight rates on wheat are a clumsy, inadequate, ineffective method of giving assistance to wheat growers in Western Canada."

A. I should regard an ineffective method as an unsuccessful attempt. I do not want to split hairs with you, but that is what I mean.

THE CHAIRMAN: Would you tell me this? Would you say then that in reality the help which is intended for the farmer goes to the buyer of wheat?

A. That is my problem. The trouble is --

Q. Is that what you say?

A. Yes, that is what I am trying to say. It is ineffective as a method and therefore should be regarded as only an attempt to subsidize the western farmer.

MR. MacPHERSON: Q. It goes to the buyer of the wheat, and it goes to the buyer of the wheat in establishing the world price?

A. That, broadly speaking, is true.

Q. So this clumsy, inadequate, ineffective method of giving assistance to wheat growers in Western Canada is assisting the buyer not only from Canada but from

the United States, the Argentine, Australia and other countries which are dependent on the world price?

A. Oh, yes.

Q. Yes.

A. A very bad thing.

Q. So that these iniquitous low rates are not only bad from the standpoint of Canada but they affect the whole wheat-growing world?

A. When anybody commits an economic sin, he is almost certain not only to suffer loss himself but to cause loss to other people.

Q. You think the Crows Nest rates at the present time are an economic sin?

A. Any mistake in economic policy which results in loss where gain is hoped for is, of course, an economic sin or a blunder -- the same thing.

THE CHAIRMAN: You say "which results in loss". In loss to whom? In loss to the railway?

A. Yes and to Canada; to the railways and to Canada.

MR. MacPHERSON: The agreement was entered into in 1897?

A. Quite a while ago.

THE CHAIRMAN: What is that?

MR. MacPHERSON: The Crows Nest agreement was entered into in 1897.

A. Yes.

Q. And it was entered into on the part of the railroad voluntarily?

A. Oh, yes, sir.

Q. And the agreement provided that there should be these rates in perpetuity on grain and flour moving east?

A. I believe it so reads, yes.

Q. Yes, it so reads. And the members of the Board at that time were able men?

A. Well, you know --

THE CHAIRMAN: Pardon me, Mr. MacPherson, but you said "the Board". Will you make it plain to which Board you refer?

MR. MacPHERSON: Q. The board of directors of the Canadian Pacific Railway were able men?

A. If you are going to ask me to certify ^{that} the board--

Q. You are a student, Mr. Armstrong.

A. Mr. MacPherson, if you are going to ask me to certify that the board of directors of the Canadian Pacific Railway never made a mistake, I am not going to do it. I do not know that they have not made many mistakes. For one reason, you would be quite upset --

THE CHAIRMAN: Q. That is not the question. Mr. MacPherson asked whether they were able men.

A. A man may be an able man in general, but --

MR. SINCLAIR: My friend should be fair about the matter.

MR. MacPHERSON: Worthy men, then.

MR. SINCLAIR: I think that when my friend says "able men", he should say able as to what.

MR. MacPHERSON: Q. They were worthy, shrewd business men and men of vision?

A. Yes.

Q. Strathcona?

A. Yes.

Q. Shaughnessy and Van Horne?

A. Yes.

Q. They were all on the board at that time?

A. Wonderful men.

Q. Now we have got a certificate from you.

A. Yes.

Q. That they were wonderful men.

A. Yes.

Q. And these men entered into this agreement in 1897?

A. Yes, sir.

Q. And the agreement lasted until it was suspended in 1918. The agreement was merely suspended in 1918, was it not?

A. Yes, in 1918.

Q. And so far as the agreement is concerned, in 1925 that portion of the agreement, and in exactly the same terms as in the agreement of 1897, was put in the Railway Act of this country by Parliament?

A. Not by the board of directors.

Q. No, I said by Parliament.

A. Yes.

Q. By Parliament?

A. Yes.

(Page 18354 follows)

1. The first part of the paper is devoted to a general discussion of the problem of the origin of life. It is shown that the problem is one of the most important and most difficult in the history of science.

2. The second part of the paper is devoted to a discussion of the various theories of the origin of life. It is shown that the most plausible theory is that of the spontaneous generation of life from non-living matter.

3. The third part of the paper is devoted to a discussion of the evidence in favor of the spontaneous generation of life. It is shown that the evidence is very strong and that it is in complete agreement with the theory of spontaneous generation.

4. The fourth part of the paper is devoted to a discussion of the various objections to the theory of spontaneous generation. It is shown that the objections are all unfounded and that the theory is completely correct.

5. The fifth part of the paper is devoted to a discussion of the various applications of the theory of spontaneous generation. It is shown that the theory has many important applications in the fields of biology, chemistry, and physics.

6. The sixth part of the paper is devoted to a discussion of the various conclusions that can be drawn from the theory of spontaneous generation. It is shown that the theory is one of the most important and most difficult in the history of science.

7. The seventh part of the paper is devoted to a discussion of the various conclusions that can be drawn from the theory of spontaneous generation. It is shown that the theory is one of the most important and most difficult in the history of science.

MR. SINCLAIR: I suggest that that is a question of law which we will argue.

MR. MACPHERSON: A question of law!

THE CHAIRMAN: The only point is: Mr. Armstrong was asked whether it was not an Act of Parliament and he said "Yes"?

MR. SINCLAIR: In exactly the same terms, he said, that is something, I suggest -- whether Mr. Armstrong be right or wrong -- which constitutes argument, and we can argue it.

THE CHAIRMAN: Right or wrong in what?

THE WITNESS: In exactly the same terms. There might be some alteration in the terms.

THE CHAIRMAN: We are not holding him to that.

MR. MACPHERSON: Q. I don't want to be unfair to Mr. Armstrong. I think he knows that.

A. I am hoping for the best.

MR. SINCLAIR: But when Mr. MacPherson hunches up his shoulders and starts to cross-examine -- but we all do it.

MR. MACPHERSON: Q. So far as the railways were concerned, the rates were suspended in 1918?

A. Yes, sir.

Q. And they were restored on grain in 1922?

A. Yes, sir.

Q. In 1922, 1923, 1924, and 1925?

A. Yes.

Q. Certain branch lines and new lines were being built by the Canadian Pacific in Western Canada?

A. Yes.

Q. And new stations and new shipping points were established?

A. Yes.

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Q. There never was any question, when a new shipping point was established, that the rate on grain from that point to Fort William was the Crow's Nest rate?

A. I must seek the aid of counsel for that one. Is that right?

MR. SINCLAIR: It is quite obvious that the witness does not know. There is the answer.

THE CHAIRMAN: Well, if he does not know, he can say so.

MR. MACPHERSON: Q. Yes, if you do not know, just say so. Do you know?

A. I am not quite certain.

Q. There were a number of branch lines built during those years, up to 1925, before the Supreme Court decision?

A. Yes.

Q. And you do not know if there was a different rate charged other than the Crow's Nest rate on grain from those new stations?

A. I have not the least idea. I was building dams at that time.

Q. It never occurred to you that the Canadian Pacific Railway might charge the Crow's Nest rate from Regina and charge another rate from Bulyea, because it was not a point in 1897?

A. That was the ruling of the Supreme Court, that that was the right way to do it.

Q. But it never occurred to you?

A. I was not there, Mr. MacPherson.

Q. Just listen to what I ask you. It never occurred to you to enquire as to what the practice of the company was in that interval up until 1925 with new points which you established?

There is a very good reason for this. It is
because the only person who has been in the
house of the Lord is the Crown Prince.
The only person who has been in the house of the Lord is the Crown Prince.

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A. I never thought of enquiring into it.

Q. You never thought of enquiring into it. Now I suggest to you and to Mr. Sinclair --

MR. SINCLAIR: Never mind the suggestion.

MR. MACPHERSON: Well, I am suggesting, in any event.

MR. SINCLAIR: All right, we will take the suggestion.

MR. MACPHERSON: Q. I am suggesting that from those new stations which were opened and established in 1897 right up until the Supreme Court decision and after it, and after it in 1925, the rate charged for grain was the Crow's Nest rate?

THE CHAIRMAN: You mean without any compunction?

MR. MACPHERSON: Yes, without any compunction, and it was accepted as general.

MR. SINCLAIR: What follows from that?

MR. MACPHERSON: That at least, it was the natural thing, as I said before in connection with Mr. Jefferson, for the selling of the land and the opening up of the country; naturally you could not do anything else and you had no intention of doing anything else. It has to be judged by your actions.

MR. SINCLAIR: The facts are there.

THE CHAIRMAN: The argument, I take it, in that statement is: that since the railways themselves spontaneously provided these freight rates for these new towns, where they did not have to do it, they must have considered that they were proper rates. Is that the idea?

MR. MACPHERSON: That is the idea.

MR. SINCLAIR: I presume --

THE CHAIRMAN: You can meet that in argument.

MR. SINCLAIR: Yes, we can meet it in argument.
But I do not think he should offer these suggestions to
my learned friend.

THE CHAIRMAN: Well, you are advised now.

MR. SINCLAIR: I am quite happy to meet Mr.
MacPherson's statement in argument.

THE CHAIRMAN: There has been no harm done.

MR. MACPHERSON: Q. No. And there is just this
point: You said, I think, when dealing with the
American farmer at page 18121 -- you said:

"It has not inured to the disadvantage of
the American wheat farmer."

MR. SINCLAIR: Where is that?

MR. MACPHERSON: Q. "It has not inured to
the disadvantage of the American wheat farmer."

A. Mr. Sinclair said that.

Q. Oh, I am sorry. I was taking Mr. Sinclair for
the witness.

MR. SINCLAIR: That is a terrible mistake
to make.

MR. MACPHERSON: Well, he speaks with more
certainty.

MR. SINCLAIR: The witness, you are right.

MR. MACPHERSON: No. Mr. Sinclair.

Q. Do you agree with Mr. Sinclair in that?

MR. SINCLAIR: Surely he is not going to
start this whole argument over again.

THE CHAIRMAN: I do not understand the two
words there.

MR. MACPHERSON: That there is one market.

"I think that is pointed out also by this
evidence: That there is one market, an

international wheat market; and I shall ask the witness further questions to show that in the United States where the rate has been, we will say, twice as high, that^{it}/is has not inured to the disadvantage of the American wheat farmer."

A. I think there could be very little doubt that the American farmer has been doing pretty well in these recent years since the rates were raised. At least I have not heard of any great trouble.

Q. Would you say the same principle would apply, and that the buyer would pay the freight?

A. Barring government intervention.

Q. What is that?

A. Government intervention produces a market condition in which economic calculation is impossible.

Ludwig Von --

Q. Do not talk to me about Ludwig.

A. But he is an authority and surely I can quote him. He points out that once you get governmental intervention in a market, then economic calculation becomes impossible, because everything is in the hands of the state.

THE CHAIRMAN: That sounds true to me. But isn't Mr. MacPherson's question of another kind? Regardless of government intervention -- you do not always have that in the United States -- what happened with these higher rates which the farmer pays?

A. Normally the same thing happened in the United States that happened here. The farmer sold his wheat, and if the freight rates went up the buyer paid the increased amount.

Q. That is your opinion?

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A. At any time when the market was inclined to be a buyer's market, in the United States, that has been largely paid by internal consumers there.

Q. Because they were the buyers?

A. Yes, because they were the buyers.

Q. Do I understand that the man at Whately who pays twice the freight rate that the man at Regina pays is any worse off?

A. In a free market?

Q. In a free market.

A. Yes. In a free market he will come out all right. The farmers of the world will come out all right that way.

Q. Will he come out as well as the farmer in Regina?

A. I think he would. If you take a United States situation, then I am entitled to take it too.

The United States situation is this: If, by increasing the freight rates you produce the one possible disadvantage of throwing off the foreign market because the increased freight rate is very much too high to that point of the embargo, then the United States farmers would grow less wheat, and they would sell it at home.

Q. Because they have a larger domestic market?

A. Yes, because they have a larger domestic market.

Q. But the man at Whately pays about twice what the man in Regina pays. How does that affect

his price, his cash price? Is he suffering by that, or is the answer to him the same as the answer to the man in Regina: that the buyer is paying it?

A. In a free international market, I would say the answer is the same as it is to the man in Regina.

We must always remember that the United States situation is one in which the production of wheat can be reduced very rapidly, and replaced by other forms of agriculture with great speed.

Kansas, for example, produces an enormous amount of wheat. But all eastern Kansas could grow corn, if it wanted to, so it gets a little complicated, you see.

Q. Yes, but need it be? Year after year the man in Whately, shipping wheat, and paying so much, which is about double what the man in Regina has been paying, has he been paying that out of his own pocket or have the buyers - - -

A. The buyers have been paying it, I think, in the United States, with the exception of governmental intervention which upset everything.

Q. Yes; we are not talking about that.

A. You see, as a matter of fact, he never paid twice as much except in those conditions of governmental intervention.

(Page 18366 follows)

MR MACPHERSON: A little over twice as much -- 55 as against 20.

Q. Now, I just want to bring one thing out in connection with the international wheat agreement. The floor there this year would be \$1.65 -- that is adjusted, my lord, as to exchange; it was \$1.50, but having regard to the fact that it is adjusted, it would be \$1.65.

A. Right.

THE CHAIRMAN: Are you saying \$1.65?

MR MACPHERSON: \$1.65. That is the floor for this crop here.

Q. Now, if the price of wheat went down to \$1.65, went down to the point where Canada had to furnish wheat at that price, \$1.65, then if there was an increase in freight rates who would be paying the increase?

A. Oh, I am inclined to suspect that as long as you have an international agreement for bulk sale which prescribes a fixed price at Fort William, I don't care where that price is, it is quite probable that the farmer will pay an increase in freight rates.

THE CHAIRMAN: Q. That what?

A. That the farmer will pay the increase in freight rates until such time as that agreement is re-negotiated.

MR MACPHERSON: Q. Is there a question, is there a possible question, in your mind about that, Mr. Armstrong?

A. Because that international wheat agreement is still in its highly experimental stage, and you have discussed it as though you knew a lot more about it than I do, unfortunately.

Q. Well, I discussed it simply because I know it was assented to by Canada.

A. Yes, I know.

Q. And it was ratified by Canada.

A. Well, I am not quite sure, if you will allow me to say so, Mr. MacPherson, that you quite understand it.

Q. Well, I think I understand it.

A. I may be all wrong myself -- maybe I don't understand it -- but the international wheat agreement, I think we will have to wait a little while before we discuss the effect of that with too much certainty, because there are one or two clauses in it -- that clause, for example, that says that you may use the methods of private trade, make your deliveries, you see. You could conceivably have a condition in which this was interpreted as being a free market between \$1.65 and \$1.98, so that you could have a situation in which Canada reopened we will say the Winnipeg Grain Exchange, for example. Supposing the Winnipeg Grain Exchange were reopened, then as long as the price varied between \$1.65 and \$1.98 the international wheat agreement could be lived up to, Britain could buy from us the quantity which she has promised to buy, we could ship to Britain the quantity we have promised to ship, and the only difficulty would be that if at the end of the year one of us had defaulted in our responsibility under the agreement, we would then have to make good by either importing or exporting the amount required to come up to the prescribed quantity, so that I am---

Q. There should not be much difficulty in answering this question, Mr. Armstrong. Under the agreement as you read it and as I think I read it, if the price gets to the floor, it is a Fort William price?

A. Yes.

Q. And if there is any increase in freight rates, that increase is: certainly paid by the farmer?

A. As long as it is a bulk sale, yes. While a bulk sale from one government to another is going on on a fixed

price at Fort William, there is no question in the world that any increase in freight rates will be paid by the farmer for the time being. I have made that very clear.

MR FRIEL: Mr. Chairman, before we come to a close, might I say, we were prepared to open our case this morning, and brought Mr. Gordon, our President, up for that purpose, and he has been standing by all day. It would be a matter of great convenience to him, as he is a very busy man, if he could be started in the morning. I have spoken to provincial counsel and to other counsel and to Mr. Armstrong, and it will be satisfactory as far as they are concerned if Mr. Armstrong is stood aside till Mr. Gordon is finished.

THE CHAIRMAN: Yes. Well, as long as you keep us busy.

MR FRIEL: We will keep you busy, sir.

---The Commission adjourned at 4:45 p.m., to meet again at 10:30 a.m. on Friday, March 17, 1950.

A.R.

Case

ROYAL COMMISSION
ON
TRANSPORTATION

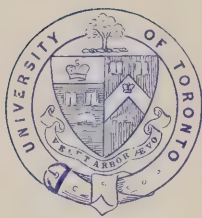
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ROYAL COMMISSION ON TRANSPORTATION

Friday, March 17, 1950

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Page

EXHIBIT No.214: Filed by Formal submission
Mr. O'Donnell: of Canadian Na-
tional Railways - - 18370

EXHIBIT No.215: Filed by Map referred to
Mr. O'Donnell; as Exhibit A in
formal sub-
mission - - -

<u>DONALD M. GORDON</u> - Called.	Presented statement on behalf of the Canadian National Railways - - - - -	18370
Mr. MacPherson - - - - -	- - - - -	18392
Mr. Frawley - - - - -	- - - - -	18392
Mr. Brazier - - - - -	- - - - -	18393
Mr. Smith - - - - -	- - - - -	18393
Mr. Barry - - - - -	- - - - -	18393
Mr. Campbell - - - - -	- - - - -	18393

Cross examined by Mr.Campbell - - - - - 18394

P. C. ARMSTRONG - Recalled. Cross examination by
Mr. MacPherson re-
sumed - - - - - 18400

<u>EXHIBIT No.216:</u>	Filed by	Breakdown between	
	Mr.Sinclair:	Canadian Pacific	
		Employees, Union and	
		Non-Union - - - - -	18400

Cross examination by Mr. J.O.C.Campbell - - 18421

Examination by Mr. Covert - - - - - 18446

Noon adjournment - - - - - 18453

Mr. O'Donnell - - - - - 18454

T. H. COOPER - Called, Examined by Mr. O'Donnell 18462

EXHIBIT No.217: Filed by Canadian National
Mr. O'Donnell; Railways, Annual
Report, for the
year 1948 - - - - 18466

EXHIBIT No. 218: Filed by Pamphlet entitled
Mr. O'Donnell: Canadian National
Railways 1923-1948 18470

EXHIBIT No.219: Filed by List entitled:
Mr. O'Donnell: "Unmatured Funded
Debt Held by Public 18471

EXHIBIT No.220: Filed by Letter addressed to
Mr. O'Donnell: the Rt.Hon.Arthur
Meighen, Prime Mini-
ster of Canada, by
Sir Joseph Flavelle,
Aug.21,1921 - - - 18495

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<u>EXHIBIT No.221:</u>	Filed by	Statement entitled	
	Mr. O'Donnell:	"Canadian Government	
		Railways - - - - -	18500
Adjournment - - - - -			18506

- - - - -

THE HONOURABLE W.F.A. TURGEON, K.C., LL.D.	-	CHAIRMAN
HAROLD ADAMS INNIS	-	COMMISSIONER
HENRY FORBES ANGUS	-	COMMISSIONER

P.L. Belcourt
Asst. Secretary

COUNSEL APPEARING:-

F.M. Covert, K.C.	)	Royal Commission on
G.C. Desmarais, K.C.		Transportation
H.E. O'Donnell, K.C.	)	Canadian National Railways
H.C. Friel, K.C.		
N.J. MacMillan		
F.C.S. Evans, K.C.	)	Canadian Pacific Railway
I.D. Sinclair		
C.D. Shepard	)	Province of Manitoba
M.A. MacPherson, K.C.	)	Province of Saskatchewan
F.C. Cronkite, K.C.		
J.J. Frawley, K.C.	)	Province of Alberta
F.D. Smith, K.C.	)	Province of Nova Scotia Transportation Commission of the Maritime Board of Trade.
J. Paul Barry	)	Province of New Brunswick
C.W. Brazier	)	Province of British Columbia
J.O.C. Campbell, K.C.	)	Province of Prince Edward Island.

OTTAWA, ONTARIO,
FRIDAY, MARCH 17th, 1950

M O R N I N G S E S S I O N

THE CHAIRMAN: All right, Mr. O'Donnell.

MR. O'DONNELL: May it please the Commission, in opening the case for the Canadian National Railways I think it would be well to produce, to form part of the record before the Commission as Exhibit 214, the formal submission which was filed with the Commission in October last.

THE CHAIRMAN: That is the brief itself?

MR. O'DONNELL: Yes, the brief. I assume that there is no need to have the submission which is filed copied into the transcript unless the Commission so desires it; and it is not my intention, moreover, to take the time of the Commission by reading this submission with which we understand the Commission and all parties are quite familiar at this time.

My friend Mr. Covert says that the submission will be run off and distributed with the transcript, which is quite satisfactory as far as I am concerned.

As I said, it is not my intention moreover to take the time of the Commission by reading into the record the submission with which we assume the Commission and interested parties are quite familiar.

THE CHAIRMAN: We will take it as read.

MR. O'DONNELL: Yes, and dispense with the reading of it.

Reference will be made to part of it from time to time during the sitting and such extracts as are quoted I assume should appear at the appropriate places in the transcript. I would, however, draw to the attention of

the Commission the fact that at the end of the formal submission, which is now exhibit 214, will be found a map which is therein referred to as exhibit A. It might be well to have this map given a specific exhibit number, and I suggest that it might be marked as exhibit 215.

EXHIBIT 214: Filed by Mr. O'Donnell.
Formal submission of Canadian
National Railways.

EXHIBIT 215: Filed by Mr. O'Donnell.
Map referred to as Exhibit A in
formal submission.

Two further exhibits referred to in the formal submission as exhibit B, reference to which will be found at page 87, and exhibit C, mentioned at page 92, will be produced in due course, at which time they will presumably be given specific exhibit numbers. They are separate documents and are not to be found in the formal submission itself.

We have considered that it would be fitting at the outset of the case for the Canadian National Railways that the Chairman and President, Mr. Donald Gordon, C.M.G., should present a statement to the Commission. I therefore ask Mr. Gordon to be good enough to come forward for this purpose. With the permission of the Commissioners, I do not propose to interrupt Mr. Gordon's presentation by any questions. I might say, my lord, and members of the Commission, that the courtesy of the Commission and of all our learned friends in agreeing to hear Mr. Gordon at this time is greatly appreciated.

MR. DONALD M. GORDON, called:

MR. GORDON: Mr. Chairman and Commissioners:

It would seem appropriate at this time, that I should make a statement on behalf of the Canadian National, speaking to the broad principles involved in this inquiry

and supplementing our Submission in respect of the adjustment of our capital structure, a matter of the gravest concern to myself, our Board of Directors and my associates.

While I assumed the responsibilities of Chairman and President of the National System but a few weeks ago, the nature of my duties and experience these past years have afforded me an excellent opportunity to become familiar with the economy of the country and its broader problems. The Railway problem, and particularly the situation of the Canadian National from a financial point of view, are among the more pressing matters which require solution. The financial aspects of the Canadian National have received my careful study and earnest consideration since I assumed office. I therefore welcome this opportunity to come before your Commission.

Our Submission deals in general terms with a national transportation policy and we have suggested that your Commission might well recommend to Parliament the definition of such a policy. No doubt the evidence which has accumulated throughout your hearings /has indicated the necessity of properly co-ordinated and fairly regulated services embracing every form of transportation.

The importance of the railways in the national transportation field cannot be exaggerated. They are of prime importance from the viewpoint of national development and national defence. Anything which weakens or affects their ability to operate and maintain their properties efficiently, weakens the country generally. I do not wish to infer that other transportation agencies have not an important place in the national transportation field; they undoubtedly have. Each has its inherent advantages which must be recognized. That each should perform the function for which it is best adapted is essential if we are

to have the most efficient transportation system.

It is equally essential that these other modes of transportation should not be permitted to continue competition in an unfair and unregulated manner with the railways in the field in which the railways beyond doubt, are the most efficient and economical agency. These matters are of national importance and are matters with which a national transportation policy must be concerned.

The Canadian National is in a unique position. It is the largest system in the transportation field, it is Canada's largest employer of labor and the nation's largest buyer of materials and supplies. Its influence in the economic life of Canada is extensive. That its prosperity is tied in with national prosperity and welfare cannot be questioned. At the same time the financial results of the Canadian National distort the true efficiency with which the System's operations are conducted. It is urgent that the true operating results be clarified.

Some of these distortions result from our capital structure which your Commission has been directed to review. Study of this subject will demonstrate that by comparison with other railways an undue proportion of the capital of Canadian National is represented by interest-bearing securities. The advisability of amaking a realistic adjustment of the capital structure and the extent of such adjustment, are the questions which arise. The main Submission of the Canadian National which has already been filed with your Commission, clearly indicates that such adjustment is imperative, and that it should be substantial in amount. Apart from the strictly financial aspects of the matter, adjustment is also important for the reasons set out at pages 75 to 79 of the Main Submission, with which reasons I am in entire agreement.

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A realistic capitalization of the Canadian National must of necessity be related to its future earning power. The historical record is only of value as offering some basis for forecasting future results. The earning power of the Canadian National from 1923 to date shows wide fluctuations. In some years earnings available for interest charges and other corporate needs have been substantial. In some other years, although there has been an operating surplus, there has been a deficit even before fixed charges. It is significant that the periods of high earnings were short-lived and came under boom or war conditions. They are therefore not to be taken as indicative of the situation which could be expected to prevail normally or in the future. Moreover, during periods of low traffic, maintenance costs were reduced to some extent at the expense of the property and therefore the historical record overstates its earning power.

As to the future, while it is quite clear that the Canadian National will continue to be a powerful and useful instrument for the development of Canada and an essential part of national defence, there are discernible trends which are adverse to net earnings. Highway competition, already sizeable in amount, will tend to increase and will divert from railway earnings the higher grade traffic from which most net earnings arise. Also to be considered is the effect of other competing forms of transportation, such as air transport and coastal and inland waters transport.

Future operations will be burdened to some extent by the deferred maintenance of property and the deferred renewal of equipment resulting from war services of the System. While, during the period of high earnings, reserves were set up to meet such expense, they have been seriously depleted by post-war inflation. Due largely to inflation,

rolling stock of the System stands in the accounts at figures far less than replacement cost. As a consequence, as replacements occur there will be an inflation of capital which, in turn, will adversely affect earnings through increased depreciation and interest charges, even when due allowance is made for the fact that the new equipment will be of an improved design, have greater usefulness and be more economical to operate than the equipment being replaced.

Inflation bears with particular severity on the Canadian National by reason of its relatively low-traffic density. There can, moreover, be no assurance of the effectiveness, in so far as net earnings are concerned, of offsetting inflationary increases in cost by increases in freight rates since it is conceivable that the railways, by such procedure, might price themselves out of the market.

The construction of additional branch lines to develop the natural resources of the country must also be considered. Such lines are expensive to construct and while they may be justified by the anticipated increases in national wealth and national income, they are not likely for many years to produce sufficient railway earnings to pay the additional expenses which they entail and the interest and depreciation on their capital cost.

The future earnings of the property, which form the basis of a rational capitalization, must reflect the effect of the foregoing facts and circumstances. It is conceivable that in some years the property would do no better than meet its operating expenses. In good times it would be reasonable to expect fairly substantial earnings. For a property having these characteristics, it would be logical to consider that all of the capital should be in the form of equity and that none of it should be interest-bearing. However, since the country is faced with a situation in which the interest-bearing securities of the Canadian National amount to \$1,344,000,000 (1948 figures), of which \$760,000,000 is held by the Government and \$584,000,000 is held by the public, it becomes a matter of practical policy as to how the capitalization should be restated.

After careful study I have come to the conclusion that to show results of operation which would meet commercial tests, the amount of interest-bearing capital which may be included in a restatement of the capital structure should be of relatively small proportions, in contrast to the present interest-bearing capitalization of \$1,344,000,000. In arriving at my conclusion I have given particular consideration to the following:-

(1) INTEREST-BEARING OBLIGATIONS ASSUMED WITH
ACQUISITION OF INSOLVENT RAILWAYS

The Canadian Northern and Grand Trunk Railway Systems would not have been acquired by the Government had they been able to carry on as private enterprises. As is well known, they were acquired in the National interest as going concerns

instead of having been put through bankruptcy proceedings. As a result there was taken into the Canadian National System at its inception, \$804,000,000 of interest-bearing debt. Some of this, acquired from the Grand Trunk, included securities which under private ownership had been on a contingent earning basis; these were converted to a fixed interest basis as part of the acquisition. What proportion of this large amount of fixed interest-bearing obligations might properly have been written off or reduced to equity capital as a result of bankruptcy proceedings is, of course, impossible to determine at this late date.

It is however, certain that considering the property as a system which had to be operated in its entirety, and considering the matter from the viewpoint of ordinary commercial standards, there was no hope of attracting private capital in any amount whatsoever. The earning capacity of the property was without promise and hundreds of millions would have had to be invested to take care of the backlog of deferred maintenance, necessary improvement and co-ordination costs. Under these /circumstances it seems reasonable that the entire amount of the above-mentioned fixed interest-bearing obligations should be converted into equity capital.

(2) RUN-DOWN AND SEMI-FINISHED CONDITION
OF PROPERTIES TAKEN OVER

The privately-owned properties, when taken over, were badly run down and, in the case of the Canadian Northern Railway System, cannot be said to have been properly completed and equipped. It would appear to have been the deliberate policy

of the Canadian Northern to construct railway lines with as little initial capital expenditure as possible, looking to completion after operation had begun. Despite large amounts expended on rehabilitation and construction prior to 1923, a great deal still remained to be done to take care of this situation on the lines of the Canadian Northern and the Grand Trunk Systems at the time of consolidation. Much of the expenditure was chargeable to operating expenses but inevitably a proportion of it was of a capital nature. The net investment expenditures of the System, 1923-1947 inclusive, have amounted to some \$707,000,000. It is a reasonable estimate that of this amount at least \$100,000,000 represented necessary improvements to the property which did not add to the earning power of the System.

(3) CO-ORDINATION COSTS

The Canadian National management following consolidation, was faced with the co-ordination of these previously competing systems. Co-ordination, it is estimated, has required the expenditure of \$40,000,000 for main-line connections, belt lines and terminal rearrangements, notwithstanding which, the property falls considerably short of having a proper location of main lines in relation to branch lines and of terminals in relation to its traffic pattern which would have been secured had the property been designed and constructed as an entity.

The System has more mileage than is functionally necessary to meet its requirements. The excess mileage has been reduced to some extent by abandonment of duplicating facilities where this could be done without injury to the national

1. THE POLITICAL

economy. This applies to those instances where the duplicating facilities were located so closely together that one of the lines would serve all needs of the community. Generally, however, this is not the case and the lines which are functionally duplicate as main lines also serve the local needs of the communities through which they run. The practice in such cases was to choose the better line as the main line and to continue the other in service as a secondary line.

There are 3820 miles of line on the Canadian National which were originally constructed as main line and which in the process of co-ordination have been reduced to secondary lines.

The maintenance and operation of these lines is a burden upon the System, even when allowance is made for their use as secondary and branch lines. This burden on revenues should be taken into account in considering the capital structure of the System.

It is estimated that the burden constitutes an operating disability in excess of \$8,000,000 annually or an equivalent capital disability of \$250,000,000, which in a sense is, and for convenience might be described as negative capital. This amount, together with the money expended upon co-ordination projects, totals \$290,000,000.

(4) CANADIAN GOVERNMENT RAILWAYS

The Canadian Government Railways constitute a considerable portion of the Canadian National System. Prior to the formation of the Canadian National System and the entrustment to it of the Canadian Government Railways, capital for these lines was provided by the Government free of interest. During the years of administration by Canadian National a change was

made and the System has since been burdened with interest-bearing capital for additions and betterments and for rolling stock, which at the present time has accumulated to some \$110,000,000.'

There is a pension fund, closed to new members in 1929, which is applicable to the Canadian Government Railways. This fund is more expensive to support than the general pension fund of the Canadian National to the extent of an equivalent capital amount of \$25,000,000. Taken in conjunction with the \$110,000,000 above mentioned, this makes a total of \$135,000,000.

While attention is directed to this situation, and for the purpose of this review, the sum of \$135,000,000 is included in the statement of the System's capital burden, it is recognized that the Canadian Government Railways are now an integral part of the Canadian National Railways for management and operation. Therefore, although it is reasonable that the Canadian National be relieved of capital expenditures on the Canadian Government Railways and of their extra pension costs, it is considered that, if the measures recommended herein for the restatement of the capital structure of the Canadian National and the method of finding new capital are adopted, no special relief should be claimed for these items.

(5) EFFECT OF ACQUISITION OF UNREMUNERATIVE
LINES IN NATIONAL INTEREST

From time to time the Government has acquired and has caused to be incorporated in the National System, in the national interest, lines of railway which had little or no net earning power in themselves, which were in a run-down condition and required rehabilitation. The Canadian National

The Government has been very successful in its efforts to reduce the deficit and to improve the balance of payments.

The Government has also been successful in its efforts to improve the balance of payments and to reduce the deficit.

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income account was thereby adversely affected. These lines are as follows:-

	<u>Cost</u>	<u>Mileage</u>
Inverness Railway & Coal Co.	\$ 375,000	60.8
Kent Northern	60,000	26.8
Gaspe Lines	3,500,000	202.3
St. John & Quebec	6,000,000	158.3
Quebec, Montreal & Southern	<u>5,920,361</u>	<u>191.0</u>
	<u>\$15,855,361</u>	<u>639.2</u>

The cost of acquisition and of rehabilitation has amounted to about \$18,000,000. Incorporation of these lines in the System increased operating expenses applicable to each by reason of the obligation to pay wages at System levels and to assume pension liabilities, while on the other hand rates for transportation service had to be reduced. The effect of these changes was decidedly adverse to the net income of the System and constitutes another example of what has been termed negative capital. It is appropriate therefore to set up negative capital of \$12,000,000 which, added to the cost of acquisition and of rehabilitation totals \$30,000,000.

Consideration must also be given to the situation created recently through the entrustment to Canadian National of the Newfoundland Railway and Steamship Services and the Temiscouata Railway.

It is anticipated that the operations of the Newfoundland Railway and Steamship Services will burden the System income account to the extent of \$4,000,000 yearly. Expressed in terms of negative capital this amounts to \$134,000,000.

Further, substantial amounts of capital will also be required from time to time to improve the property.

The operation of the Temiscouata Railway will constitute an additional burden on the Canadian National and will adversely affect its net annual income to the extent of \$180,000, the equivalent of \$6,000,000 in terms of negative capital.

The total of the capital items in this group is \$170,000,000.

(6) EFFECT OF DEVELOPMENT LINES

Large amounts of capital have been spent upon development branch lines, the whole cost of which by necessity has been provided by the issue of interest-bearing obligations, whereas in sound financing procedure, a substantial percentage of the cost should have taken the form of equity financing. The amounts so expended total \$85,000,000, and if a minimum of 40% be taken as the amount which should represent equity capital, the capital burden of the Canadian National is in this respect excessive to the extent of \$34,000,000.

SUMMARY

Summarizing the above, the following statement of excessive capital burden upon the Canadian National System is obtained:-

... will also be required from time to time to improve the property.

The operation of the ... will ... an additional burden on the Canadian National and will ... effect on net annual income to the extent of \$100,000 ... equivalent of \$6,000,000 in terms of net income ... The total of the capital items in this ... \$100,000,000.

(a) RECAPITULATION

... have been shown from ... branch lines, the whole cost of which is necessarily ... provided by the issue of interest-bearing obligations ... a sound financing procedure, a substantial ... of the cost should have been taken the form of ... The amount ... and a total of \$6,000,000 ... on the ... amount which would ... capital, the capital burden on the Canadian National ... this ... to the extent of \$100,000,000.

...

... the above, the following ... relative capital burden upon the Canadian National ...

Interest-bearing obligations assumed with acquisition of insolvent railways,	\$ 804,000,000
Run-down and semi-finished condition of properties taken over	100,000,000
Co-ordination costs,	290,000,000
Canadian Government Railways	135,000,000
Effect of Acquisition of unremunerative lines in National interest,	170,000,000
Effect of Development Lines	<u>34,000,000</u>
	<u>\$1,533,000,000</u>

This statement evidencing excessive capital burden of \$1,533,000,000 (which is in excess of the Fixed Charge Debt of Canadian National of some \$1,344,000,000) supports the conclusion that an undue proportion of the capital invested in the Canadian National System is represented by interest-bearing securities.

It is submitted that by ordinary commercial standards, the entire interest-bearing capital should be converted to equity capital. However, in view of the practical difficulty in the way of converting the interest-bearing capital in the hands of the public into equity capital at this time; and having regard to the potential earnings of the Canadian National System, which are considerable and may in some degree offset the adverse factors

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here considered; and on the assumption that the present imbalance which exists between railway rates and railway costs will be removed by adequate rate increases, I submit the following as an appropriate adjustment:

- (1) The \$760,000,000 of interest-bearing obligations held by the Government should be exchanged for equity capital and reflected in the balance sheet as such.
- (2) The Government should acknowledge an indebtedness to Canadian National in the amount of \$300,000,000 to bear interest at 3% until discharged. This would be set up in the accounts of Canadian National as a capital fund to be drawn on from time to time to retire interest-bearing obligations in the hands of the public or for capital additions to the property. As consideration for the acknowledgement of the indebtedness aforesaid, Canadian National would issue a commensurate amount of equity stock to the Government.
- (3) Future development lines should be financed to the extent of not more than 60% by interest-bearing securities, the balance to be supplied by the Government against the issue by Canadian National of a commensurate amount of equity stock.

Mr. Chairman, in saying what I have just said on this particular point I would definitely wish to emphasize and make clear that there is no intention on the part of the Canadian National Railways to undertake the construction of any and all railways which might in the future be suggested, even if 40 per cent of the capital were to

be provided by way of equity stock. The Canadian National Railways should be free to consider on its own merits each individual case of developmental ^{line} / which might be proposed in the future.

It is my considered opinion, concurred in by the Board of Directors, that nothing short of these measures can be deemed adequate treatment of the capital structure of Canadian National. These measures, if put into effect, should enable Canadian National, on the average, to meet its fixed charges, including interest on funded debt.

I submit very earnestly that the adjustment of the capital structure of Canadian National is long overdue and that for the reasons set forth in the Submission filed by Canadian National with you in October last, as well as for the further reasons already presented and to be presented during the course of these sittings, your Commission should recommend that it should now be adjusted.

SURPLUS EARNINGS

Prudent business management and judgment have always approved the establishment of reserves in years of financial prosperity for use in the leaner years. On the assumption that our proposals are implemented, it is not unreasonable, as I have indicated, to anticipate that Canadian National will in some years have surplus earnings. The task of Management would be greatly eased in my opinion, also concurred in by the Board of Directors, if there were a recommendation from your Commission that the Board of Canadian National use such surplus earnings (a) to provide sufficient funds to cover expenditures for non-revenue producing improvements and betterments; and (b) to establish a rate stabilization fund which it is hoped could be built up in good years and drawn upon in

poor years with the view of affording stability to the rate structure and tending, to the extent of the fund from time to time existing, to postpone the necessity of applications for general freight rate increases. Your Commission is respectfully invited to recommend the proposals which I have just made regarding this subject.

(Page 18391 follows)

UNIFORM ACCOUNTING AND STATISTICAL PROCEDURE

Our Company has submitted in respect to accounting, that there should be a uniform system of accounts for Canadian railways and that such system should be prescribed in accounting classifications to be issued by the Board of Transport Commissioners. That there should also be uniformity between the accounting regulations of Canadian railways and United States railways seems equally desirable. Canadian railways have lines in the United States and United States railways have lines in Canada. Comparisons of operating results and statistics do not stop at the International Boundary.

Our Company considers that records and reports as maintained and made by Canadian railways should be based upon uniform statistical classifications and considers that the classifications prescribed by the Interstate Commerce Commission should be incorporated in any new Canadian classifications.

There are other matters covered in our Submission. All will be dealt with by our senior officers who will be available to render any assistance to the Commission of which they are capable and also for examination in respect of the whole Submission and the details of the plan which I have enumerated during these brief remarks.

We consider that the establishment of Canadian National on the bases which I have put forward would be prudent and would tend to more efficient management and to greater effectiveness in meeting the essential needs of the nation. Canadian National service is vital to the development of Canada and is a vital part of Canada's defences. Canadian National should be provided with a realistic capital structure.

This is all I have to say, Mr. Chairman and

Commissioners, and I thank you for the attention which you have so kindly given me and the opportunity to appear before you.

THE CHAIRMAN: Now, Mr. O'Donnell, are you going any further with Mr. Gordon?

MR O'DONNELL: That is all as far as I am concerned at the moment, my lord.

THE CHAIRMAN: Does anyone desire to ask any questions of Mr. Gordon?

MR O'DONNELL: I understand the witness who was testifying is to resume now and carry on and finish his testimony, and then we will resume our case when that is done.

THE CHAIRMAN: You mean when Mr. Gordon retires we will go back to the previous witness?

MR O'DONNELL: That is my understanding.

THE CHAIRMAN: Does anybody want to ask Mr. Gordon any questions?

MR MACPHERSON: Mr. Chairman, I do not want to ask Mr. Gordon any questions, but on behalf of my province I want to say this, that I think we should recognize the fact that Mr. Gordon has just recently been appointed to this very important post, that we congratulate him, and that we wish him well. We recognize that he is in a very special way equipped as a Canadian citizen, and we know of his patriotic zeal and his ardour, and we wish him well. In saying that and in refraining from asking him any questions, I do not suggest that I will not appraise in due course the recommendations that are made in his statement, but I agree entirely with the fundamental principle which he lays down, that the importance of the railways in the national transportation field cannot be exaggerated.

MR FRAWLEY: Mr. Chairman, speaking for Alberta,

I would like to associate myself with the remarks of my friend Mr. MacPherson, in greeting Mr. Gordon upon his taking the Chairmanship and the Presidency of the Canadian National Railways. We in Alberta wish him very well in his new position. I understand from my friend Mr. O'Donnell that he will have other witnesses, Mr. Cooper and Mr. Fairweather, who can be examined upon all parts of Mr. Gordon's statement, and, with that understanding, I have nothing to ask Mr. Gordon; but very likely after this very interesting statement is studied I would like to ask Mr. Cooper or Mr. Fairweather some questions about it.

MR O'DONNELL: Mr. Cooper and Mr. Fairweather will be here throughout, as Mr. Gordon has said, and will be very glad to help as far as possible.

MR BRAZIER: Mr. Chairman, on behalf of the Province of British Columbia I would like to join in the remarks made by my friends Mr. MacPherson and Mr. Frawley. I know the people of British Columbia were very pleased to learn of the appointment of Mr. Gordon to such an important position as the head of the Canadian National Railways. I am sure that he will find a great degree of co-operation from all the people of British Columbia whenever he comes out there.

MR SMITH: Speaking on behalf of the Province of Nova Scotia, Mr. Chairman, may I associate myself with the observations which have been made by preceding counsel.

MR BARRY: On behalf of New Brunswick, Mr. Chairman, I wish to associate myself heartily with those remarks.

MR CAMPBELL: Mr. Chairman, on behalf of Prince Edward Island, I might say that not all the things that we have said during this case in connection with the submissions of Prince Edward Island are deleterious or critical of the Canadian National Railways. While my friends for

the other provinces have said that they do not propose to ask any questions, there is, however, Part Three in the Prince Edward Island brief which I think requires of me to ask at least one question of this witness.

CROSS-EXAMINED BY MR CAMPBELL:

Q. As I have said, Mr. Gordon, not everything that Prince Edward Island has said in its brief is critical of Canadian National Railways. May I ask the Secretary to place in the hands of the witness the Prince Edward Island brief? I would like to read, at page 115, the first large paragraph from the top, that is, the fourth paragraph actually:

"The Canadian National Railway system stretches across the length of Canada, southward into the United States, northward to the Hudson Bay, not demonstrating the failure of State ownership, but proclaiming its glittering success. Despite the disadvantages of vehement and brilliant competition, of over-expansion of mileage, allied to retarded development of facilities, of political opposition, there has emerged, from broken-down railways operated half-heartedly by men possessing no corporate enthusiasm, a railway second to none in the World, staffed by a body of men in whom has been instilled a fierce and aggressive loyalty. Surely all this could not have been accomplished if Government ownership necessarily implies political interference or the creation of a political machine."

Now, the question which I feel constrained to ask you, Mr. Gordon, is -- I realize you have only been, as you say, a few weeks in your present position -- has there been in those few weeks any political interference in the operation

of Canadian National Railways?

A. Not the remotest suggestion of political interference of any kind.

Q. Thank you, Mr. Gordon. Now, in connection with the remark made by one of your illustrious predecessors, Sir Henry Thornton, would you please turn to page 67, the fourth paragraph from the top? This is some evidence of the late J. Leroy Holman in the Truck Ferry Rates Case:

"Sir Henry came into the car and sat down, "What is your problem?" At that time, I believe the rates for cars, return, were somewhere around \$12.00. We told him and he said, 'In my opinion, it would be good policy for the Canadian National Railways to carry those automobiles across to Prince Edward Island free because it would bring such tourist traffic to the province it would increase the prosperity of the people. The railway would get its return, financial return, by catering to a prosperous community.'"

Now, I do not wish to ask you, Mr. Gordon, whether you think cars should be carried free; I would merely like you if you would to confirm Sir Henry's statement there, that a railway gets part of its financial return by catering to a prosperous community?

A. Well, Mr. Chairman, it seems to me that it is fairly obvious that the higher the state of prosperity the more prosperous the railway is likely to be, but I would not like to admit by inference that because a community is prosperous it should get a service at lower than a reasonable return.

Q. And the same thought at the bottom of page 70 and the top of page 71. In the last paragraph on page 70 the same witness is saying, in the third line of that paragraph:

"I remember discussing it one time with Senator Sinclair and with Sir Henry in Montreal. It was a matter of discussing a superintendent for the Prince Edward Island railway. He said, 'I suppose you people would just want an Islander.' I believe we told him we would want the best man he could send to us. He said his idea would be that he would take a young man with a college education along lines that would be applicable and beneficial for the operation of a railway or managing a railway and he would say, 'Here, young fellow, there is Prince Edward Island; that is your baby. Anything you can do to develop the trade of Prince Edward Island in order to make the people there more prosperous is your first consideration. You do not have to worry about the railway making money if you do that.'"

I suppose the same answer as you gave to the other question?

A. Yes. I think I should add to it, too, that in the organization of the Canadian National Railways, of course, regional officers are appointed, and they definitely have in mind the desirability of doing everything within their power to promote the prosperity of the particular community in which they are located.

Q. Just one other question, Mr. Gordon. At page 108, the second last paragraph -- this is from the remarks of a former President of the C.P.R. I just wonder if you agree. This is Sir Edward Beatty:

"The prejudice against monopoly is founded on unfortunate past experience in railway and other fields, but in this case it loses its force because railways no longer have a monopoly of transportation. Their rates and services are disciplined, or, at any rate, powerfully influenced, by competition from

waterways and road vehicles, and will in the future, in all probability, be further affected by air services."

Do you agree with that statement?

A. I see nothing in it to disagree with, reading it as I read it, but I do not like to make comments on sentences extracted from their context. If this is intended to convey the general idea that the railway service will be powerfully influenced, as stated here, by competition from other modes of transportation, then of course I would agree with that obvious fact.

Q. Thank you, Mr. Gordon.

MR COVERT: Mr. Chairman, I had intended taking advantage of Mr. Gordon's presence to ask him a series of questions about the revision of the capital structure, but when I read the penultimate paragraph in the brief, it says that officers of the Canadian National will be called to deal with these matters, and I gather from Mr. O'Donnell that that is the situation.

MR O'DONNELL: That is correct. We will have Mr. Cooper, who is a Vice-President, and Mr. Fairweather, who is a Vice-President, and any others whom you may need will be available at all times.

MR COVERT: In that case, Mr. Chairman, I will not ask any questions.

THE CHAIRMAN: Well, Mr. Gordon, we thank you, and I am glad to see that the sentiment of good feeling toward yourself is unanimous.

THE WITNESS: Mr. Chairman, before stepping down, may I express through you my personal appreciation of the kindly personal references which have been made to me, and particularly of the consideration that has been shown to me here today.

P. C. ARMSTRONG RECALLEDCROSS-EXAMINATION BY MR. M.A. MACPHERSON, K.C., CONT'D

MR. SINCLAIR: Mr. Chairman, before Mr. MacPherson resumes his cross-examination of Mr. Armstrong I would like to file this breakdown between Canadian Pacific employees union and non-union, which was referred ^{to} yesterday, and which was an Exhibit in the Twenty Per Cent Case.

THE CHAIRMAN: It was an Exhibit?

MR. SINCLAIR: Yes, and I dealt with it yesterday morning. It arose out of a question put to me on the day previous by Dr. Innis.

THE CHAIRMAN: Was it given a number?

MR. SINCLAIR: No, it was not.

MR. COVERT: It will be Exhibit No. 216.

<u>EXHIBIT NO. 216:</u>	<u>Filed by Mr. Sinclair</u>	<u>Breakdown between Canadian Pacific Employees, Union and Non-Union.</u>
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MR. MACPHERSON: Q. Mr. Armstrong, in your evidence of the day before yesterday, at page 18068 --

A. Yes, sir.

Q. The last answer on that page, you said:

"A. Well, the price at Fort William or Vancouver, those are prices which are functions of the international wheat market. Those are not primary markets; those are markets at which the effects of the world wheat market are reflected in local prices."

Do I understand that to mean that the world price is the price which governs?

A. Which starts all negotiations, yes.

THE CHAIRMAN

The Chairman: I am glad to see you here. I am sure you will find the meeting very interesting. The first speaker will be Mr. Smith, who will speak on the subject of the future of the world. He will speak at 10 o'clock. The second speaker will be Mr. Jones, who will speak at 11 o'clock. The third speaker will be Mr. Brown, who will speak at 12 o'clock. The meeting will close at 1 o'clock.

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They start there.

Q. And the Fort William price simply reflects that?

A. Yes. It reflects that, of course, with any alterations which may occur between the Fort William and the world market in transportations costs and other handling charges. And, as I tried to point out yesterday, there is not as precise and clear reflection as there is at Winnipeg of prices paid at country points, because international grain traders, the great companies which trade in grain, and now the British Cereal Import Board are remarkably skilful, in that they can buy wheat from the Argentine Republic at a very different price than they pay Canada.

THE CHAIRMAN: Who is that?

A. These great buyers, the great international buying companies at one time, and now the British Cereal Import Board, and these great international companies, they, by the exercise of great skill and ingenuity, are able to play very remarkable tricks at buying and paying different prices from different people at the same moment.

MR. MACPHERSON: Q. But you regard the Fort William price as a function of the international wheat market?

A. Oh, there is no question about that.

Q. There is another page of your evidence on which I wish to hear something from you, and that is page 18094?

A. Yes, sir.

Q. At about the middle of that page you say:

"So far as transportation is a factor in wheat prices at all, the Canadian farmer is certainly at no disadvantage. He is the best situated in the world to the extent to which that helps him."

That was your evidence?

A. Yes, sir.

Q. Now, do you regard the Canadian farmer as being at a disadvantage in competition with other wheat producers in the world, who supply the world market?

A. In what disadvantage would he be?

Q. Have they any disadvantages?

A. Well, do you mean in a general open market, would you say? It is quite important, that suggestion.

At present, the Canadian farmer has a very definite disadvantage, whether wisely or unwisely, because the governments of the two countries, the United States and Canada, have adopted different marketing policies, with the result that the Canadian farmer does experience a disadvantage when compared with the United States, as a result of the contrast of these policies.

Q. In his location?

A. Oh, no, no. We have taken care of that. The railways have taken care of that.

Q. He is not at any disadvantage?

THE CHAIRMAN: He is what?

A. I said the railways have taken care of that.

MR. MACPHERSON: Q. You knew Sir Edward Beatty?

A. Oh, yes, very intimately.

Q. And you worked closely in conjunction with him?

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A. Yes.

Q. You were economic adviser to him?

A. Sir Edward left the company before I was actually appointed economic consultant. But in the latter part of his lifetime I acted as economic adviser to him. Unquestionably, although I was called a special representative.

Q. Would that include the years 1933, 1934, and 1935?

A. Very much so. I was very close to him in those years.

Q. Then you would probably be familiar with an address which was delivered by him before the Canadian Political Science Association of Montreal on the 22nd of May, 1934?

A. I think I remember that. I think I was in the hall. I am a member of that association.

Q. I shall read part of that address to you and ask you whether you agree with it as of today's date.

MR. SINCLAIR: Have you got a copy of it?

MR. MACPHERSON: No, I have not got a copy. But I am sure there will be a copy of it in the possession of the railway. And Mr. Armstrong says he was in the hall and heard it delivered.

THE WITNESS: It was a long time ago.

MR. MACPHERSON: Q.

"Nature designed Canada as a reservoir of many of the things which are essential to mankind's existence under civilized conditions. It can produce much more than its potential population can consume and, therefore, it must

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live by exports. Geography has been unkind to Canada in the matter of relating it to its profitable markets. No nation can be named which is so vitally concerned in obtaining cheap and efficient internal transportation. The removal of this geographical disability has been the declared purpose of every man who has written his name in our transportation history."

Do you remember that speech?

A. Very well.

Q. Do you agree, taking various parts of it -- do you agree that Canada must live by exports?

A. Oh, very markedly indeed. There is no country in the world to which exports are more important than Canada at the present time.

Q. Do you agree that geography has been unkind to Canada in the matter of relating it to its profitable markets?

A. Geography started out by being unkind, but the Canadian Pacific and the Canadian National have been more kind about it.

Q. Now, Mr. Armstrong, seriously?

A. I am not joking. I point out that that is exactly the correct answer to your question.

Q. Well, I want to find out whether you are serious about it?

A. I am absolutely serious. I am perfectly serious.

Q. You say the extent to which geography has been unkind to Canada in the matter of relating it

to its profitable markets has been corrected by the railways?

A. More than by any other factor, modern technology in general.

Q. But it has been corrected by the railways?

A. As far as transportation is an issue, it is due to the efforts of the Canadian railways and to their position ^{that} Western Canada is in a position to have access to these export markets.

Q. I mean, talking about the effect: Do you say that in your opinion that that statement is not correct, about geography, and as to relating it to its profitable markets?

A. I thought I had said that geography had been unkind, and, as Sir Edward Beatty said, the railways had attempted to mitigate the unkindness.

Q. And that they had succeeded, in your opinion?

A. Oh, I think so.

Q. Do you agree that "no nation can be named"? That is a pretty sweeping statement. "No nation can be named which is so vitally concerned in obtaining cheap and efficient internal transportation"?

A. I think that is quite true. I cannot think of any nation in which cheap and efficient transportation is more important, anywhere.

Q. I now want to refer to another speech of Sir Edward Beatty's, delivered in the Toronto Canadian Club on May 20, 1935. Do you remember that occasion?

A. No. I am sorry. I was not there.

Q. I shall read parts of it. He was speaking to the Toronto Canadian Club and he said:

"Wheat has played a greater part than any other commodity in creating the vast system of commerce on which modern civilization depends. Were international trade in wheat to vanish or even to shrink considerably, the entire transportation and commerce of the world would suffer a shock of great severity."

Do you agree with that statement?

A. To go into a personal reminiscence at this point, without giving away any confidence at all, it is my memory that I urged Sir Edward Beatty to use that sort of language. It was certainly my concept, and it is still my concept.

Q. It is still your concept?

A. That is right.

Q. I come to another paragraph of that speech as follows:

"You in Toronto -- a city which despite its enormous importance in the affairs of the country. . ."

He was speaking to the business men of Toronto, who were members of the Canadian Club of Toronto.

". . .has little direct contact with the movement of wheat -- should be able to compare these figures . . ."

Which he quoted;

". . .with the fluctuation of business in your community, and deduce from them my reason for saying that no farmer in Western Canada is more interested in the

yield and price of our wheat crop than are you, the business men and workers of Toronto."

A. I am awfully glad that he told them that. I wish somebody would tell them again.

Q. You agree with it?

A. Oh, very warmly.

Q. And then, a further portion of that speech:

"We have created in this country a manufacturing and transportation system which cannot be supported by the present volume of our primary production. That volume must be increased, and I know of no method as wise as that of expansion of our agriculture, the opportunity still exists."

Do you recollect that statement?

A. Oh, yes.

Q. And you agree fully with that statement?

A. One hundred per cent!

(Page 18410 follows)

Q. Yesterday we had some discussion as to who paid the freight. I just want to refer back to one point in that connection. Do you know a gentleman by the name of Walter J. Kelly, who was in charge of the traffic department of the Association of American Railways.

A. I met Mr. Kelly at luncheon some time ago, yes. I do not know him at all well.

Q. You know who he is?

A. Yes. I met him at a luncheon.

Q. Mr. Kelly gave evidence before the sub-committee on trade policies, of the Senate committee on interstate and foreign commerce, on December 2, 1948. That evidence is already part of an exhibit. It is 1-B of exhibit 47 filed in this hearing. I wish to refer to one paragraph in that. He said:

"Fresh fruits and vegetables usually are sold at destinations at public or private sale. In either case, freight charges are deducted from the amount realized when remittance is made to the producer. This means that the cost of transportation is borne by the producer."

A. I am unaware of Mr. Kelly's status as an economist, and I would have to read his whole story, and I would have to consider it very carefully. I would want a long time to consider that sort of a statement. It traverses statements made by many other competent economists.

THE CHAIRMAN: What is that?

A. It traverses statements made by any other competent economists. Mr. Kelly may be right. I am not thinking about the part of his statement in which he says the transportation charge is deducted. That has nothing

to do with who pays economically. I think we will all agree with that. It is the last sentence there, where he says the cost is paid by the producer.

MR. MacPHERSON: I will read it again.

THE CHAIRMAN: What are you reading from, Mr. MacPherson?

MR. MacPHERSON: I am reading from a copy of the evidence of Mr. Kelly, my lord. It is filed with this Commission.

THE CHAIRMAN: Would you like to read his qualifications?

MR. MacPHERSON: Yes, I will read his qualifications. I am coming to that as the next thing.

THE CHAIRMAN: Would you read that statement over again?

MR. SINCLAIR: He is traffic officer.

MR. MacPHERSON: Yes.

THE CHAIRMAN: Traffic officer of what?

MR. SINCLAIR: Traffic officer of the A.A.R.

MR. MacPHERSON: Of the Association of American Railroads; and he was giving evidence before a sub-committee of the Senate of the United States.

THE CHAIRMAN: Here?

MR. MacPHERSON: No, of the United States. This copy of his evidence has already been filed, my lord. He says:

"My name is Walter J. Kelly.

I am in charge of the traffic department of the Association of American Railroads, with the title of traffic officer.

I have had over 47 years' experience in the railroad business, most of it in connection with traffic matters."

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THE CHAIRMAN: What is the statement you have reference to?

MR. MacPHERSON: I will read it again, my lord. He says:

"Fresh fruits and vegetables usually are sold at destination at public or private sale. In either case, freight charges are deducted from the amount realized when remittance is made to the producer. This means that the cost of transportation is borne by the producer."

Q. You would not agree with that in theory, Mr. Armstrong?

A. I would agree with the first part because I believe that that statement is correct--and Mr. Kelly would be most convincing to me as an authority--when he says that the transportation charges on fresh fruits and vegetables are usually deducted from the price paid to the grower. I would disagree, however, with the economic implication. I^{would} suggest that if opinions of that kind are wanted of the Association of American Railroads, their department of economics might be consulted rather than their traffic department.

THE CHAIRMAN: What is the economic consequence you speak of? He gives the facts. He says in either case the freight charges are deducted from the amount realized when remittance is made.

A. The fact.

Q. Yes, the fact. And he says that this means that the cost of transportation is borne by the producer.

A. That is an economic deduction which I do not believe is correct. That is what I have been trying to point out that you cannot assume; the mere fact that a man pays a bill does not mean that he is out the amount of the

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is devoted to a general

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The sixth part of the

report is devoted to a detailed

description of the results of the

investigations conducted during the

last year. The seventh part of the

report is devoted to a general

bill, economically speaking. I may pay a bill for someone else for any purpose and it may or may not come out of my pocket in reality. So that as an economic implication I would disagree, and I would suggest that on that point I doubt if Mr. Kelly would care to give evidence to the Commission, especially in view of the fact that the Association of American Railroads has one of the finest staffs of economists that I know of.

MR. MACPHERSON: Well, Mr. Armstrong, this was Mr. Kelly's evidence before the committee?

A. I do not doubt that.

Q. And Mr. Kelly is a responsible man and an experienced man?

A. In economics?

Q. In traffic.

A. In economics? This is an economic question.

Q. He is an experienced railway traffic man.

A. But this is an economic question. I may be highly experienced in some particular line; but if you ask me to express a legal opinion, I might begin to flounder; and I am quite a responsible person.

THE CHAIRMAN: The question is a very simple one. We are interested now just in the facts. Whoever makes the remittance says to the man to whom it is made: "Here, we sold your fruit yesterday for \$100. Out of that we retained the cost of bringing it up from your town, which was \$15. Here is \$85."

A. The fact is admitted.

Q. What is the use of telling that man he has not paid the cost of transportation?

A. The cost is borne, which is a different statement from the statement that he has paid the money --

Q. Those are the facts.

MR. MACPHERSON: Yes. That is all I want to read.

THE CHAIRMAN: Any argument arising out of those facts can be made at the proper time, but this is not the time to make it.

MR. MACPHERSON: That is right.

Q. Yesterday, in criticism of the Saskatchewan brief, you suggested that too much was being taken for granted on the part of those who submitted the brief as to the impact of the Crow's Nest rates?

A. You mean the brief of the three provinces?

Q. Yes.

A. Yes.

Q. And your complaint was that they were taking too much for granted. That was the term you used?

A. Yes, it might be. Yes, I could quite say that. I think they were.

Q. In this book written by Dr. Swanson and yourself, at page 253 you enunciate the same theory that you have supported yesterday and the day before in connection with the importer paying the cost of the freight. You start off by saying:

"Now it is an axiom that in a buyer's market the purchaser pays the freight"

A. Yes.

Q. An axiom is something that you take pretty well for granted, is it not?

A. Well --

Q. What is an axiom?

A. An axiom is something that is taken for granted. It is usually used to mean a generally accepted truth. I think you will agree that it is properly used to indicate a generally accepted truth; and personally I am not aware

of any important divergence of opinion from that view on the part of any standard author on economics. That is the reason I thought it was axiomatic.

Q. According to the Shorter Oxford Dictionary, with which I think you would agree, an axiom is "a self-evident proposition not requiring demonstration but assented to as soon as stated."

A. I would hope that this one would be, because it is so obvious. But if you prefer to have me say it, I would say that I had not consulted the Oxford Dictionary before writing that book.

Q. I was not trying to be smart.

A. I was using the word "axiom" in the accepted use of that word. "Axiom" is generally accepted in conversation and in writing, to the best of my knowledge, as being a truth that is so well established that it is generally accepted; and I regard that as an economic axiom.

Q.
THE CHAIRMAN: / As what?

A. An economic axiom.

Q. An axiom?

A. Yes.

Q. Is an economic axiom any different from an ordinary axiom?

A. No. An economic axiom, I should take it, would be a truth that is generally accepted in economic discussions.

Q.
MR. MACPHERSON: / Yet you know now that at least one economist, who was in that very same box in which you are standing, dissented from your view in that connection.

A. I was not here.

MR. SINCLAIR: Who?

MR. MACPHERSON: Dr. Britnell.

MR. SINCLAIR: I should like to see the transcript where he says that in a weak market the buyer did not pay the transportation costs.

MR. MACPHERSON: It was read the other day. Dr. Britnell's evidence in this matter was referred to by yourself, sir.

THE CHAIRMAN: As I remember it, Dr. Britnell's evidence went further than that; he said that the shipper pays the transportation in all markets. That is what he said.

MR. SINCLAIR: As I said before, no doubt Dr. Britnell will be back.

THE CHAIRMAN: There is no question that that is what he said.

MR. SINCLAIR: I think what he said was that the farmer got the price at Fort William, less the freight.

THE CHAIRMAN: No, that is not the question. I read his evidence.

MR. SINCLAIR: Paid the cost of the freight to Ft. William.

THE CHAIRMAN: No. I do not think he restricted it to Fort William. In the course of his evidence he may have said other things as well, but he did make the bald statement, and I asked him about it. I said that the millers in England told me they paid the freight, and he disagreed. That is not Fort William. That is England.

MR. SINCLAIR: I think there is quite a distinction between "paid" and "borne". I do not know whether Dr. Britnell may be in doubt on those terminologies.

THE CHAIRMAN: If anybody can ever solve that problem definitely for me, I would take him into special affection for the rest of my life.

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MR. MACPHERSON: There is just one other point in your evidence to which I wish to refer, and this was at page 18073, where you referred to the truck rates for trucking grain as being half a cent per bushel per mile.

A. Yes.

Q. Do you suggest that your studies indicated that that was the rate that was paid?

A. I tried to get something authoritative on that, and it was not the easiest thing in the world, as you may well imagine. It involved a tremendous amount of correspondence, telegrams and things. As these rates are not subject to public regulation, there are no filed tariffs of them. I did write to many friends out west. I even had some long telephone calls. This is what I obtained. These are personal correspondents, you understand.

Q. I do not want to go into your personal correspondence.

Q. But I will tell you what has been told me.

THE CHAIRMAN: What was your question, Mr. MacPherson? I have forgotten what it was.

MR. MACPHERSON: I asked him if his studies had indicated that the cost of trucking wheat in the west was half a cent per bushel per mile.

A. Here is a letter from a veteran resident of the west, and very familiar with western conditions indeed, in answer to a letter of mine, in which he says: "Rates are from half a cent a bushel per mile --"

Q. I do not want these letters.

THE CHAIRMAN: Mr. Armstrong, I think from now on if you cannot answer a question, we will just pass it up.

MR. SINCLAIR: I think, my lord,^{he said} he did get it. I know my friend wants to get on.

MR. MACPHERSON: Yes.

MR. SINCLAIR: But he wants the facts and he wants the assistance of this expert witness.

THE CHAIRMAN: That question may be answered yes or no.

MR. SINCLAIR: I think he has said yes, that he did get it; and he is telling how he got it.

THE WITNESS: Yes. I thought Mr. MacPherson doubted it.

MR. MACPHERSON: No.

THE CHAIRMAN: Put your question again, Mr. MacPherson?

MR. MACPHERSON: ^{Q.} You made certain studies as to the cost of trucking grain in the west?

A. The most careful I could make.

Q. The most careful you could make?

A. Yes.

Q. And those studies indicated to you that the cost was one half cent a bushel per mile?

A. In most cases, yes; there are variations of it, but that is typical.

Q. Have you reduced that practically to what the return would be for hauling grain?

A. If a man lived ten miles from the country elevator, it would cost five cents a bushel to haul it in at that rate.

Q. Five cents a bushel?

A. Yes.

Q. It would cost five cents a bushel at half a cent --

A. Per bushel per mile, for ten miles. I think my arithmetic is right, is it not?

Q. Just let us work that out. A half a cent per

bushel per mile, you say?

A. Yes.

Q. Do you know how many bushels the usual wheat truck carries:

A. Oh, I would^{have}/to do some awful guessing about that. I would rather have information on that point from someone who knows better than I do.

Q. I am not going to pursue that matter further, except to say that you do not know anything about it. You do not know whether it carries fifty bushels, one hundred bushels, or what it carries?

A. Well, I did not look into it because I was interested in the cost of hauling a bushel to the elevator. That is all I was trying to argue about.

Q. Well, you simply did not pay any attention to the return of the individual at all?

A. I was not interested in that. I hoped they would make a lot of money.

Q. You were not interested as to whether it was practicable?

A. No.

MR. MACPHERSON: Thank you, Mr. Armstrong.

(Page 18421 follows)

THE CHAIRMAN: Is anybody else intending to cross-examine the witness? Mr. Campbell, -

CROSS-EXAMINATION BY MR. J.O.C. CAMPBELL, K.C.

Q. Mr. Armstrong, you entered the full-time service of the Canadian Pacific Railway in 1930?

A. Yes, sir.

Q. And you became Economic Consultant to the President, Sir Edward Beatty?

A. Well, that was not my title at the time. It was Economic Advisor. The title of Economic Consultant came some time later.

Q. Instead of Consultant you were Advisor?

A. Advisor, yes.

Q. And you were his Economic Advisor from 1933 to 1935?

A. Oh, yes, I think so, I think he took my advice a great deal.

Q. Did you agree with Sir Edward Beatty when he urged unification of the Canadian railroads?

MR. SINCLAIR: My lord, the position of the Company in regard to that matter has been set out in its Brief and I find it in the Appendix to Part II at page 17 where it reas:-

"Canadian Pacific submits that no useful purpose would be served through a study of unification of all railways under public ownership."

THE CHAIRMAN: Part II, you say, at what page?

MR. SINCLAIR: Page 17, in the Appendix to Part II. That was in answer to some of the submissions of the Province of Saskatchewan.

THE CHAIRMAN: I am sorry that I am not able to

take the witness stand, but I am sorry that I am not able to

STATEMENT OF MR. J. J. CAMERON, JR.

Q. Now, Armstrong, you stated that you were married

and that you were married in 1937

is that right?

A. Yes, because I was married in 1937

is that right?

A. Well, that was not my title at the time. It was

an advisor. The title of Economic Consultant came

at a later time.

Q. Instead of Consultant, you were an advisor?

A. Advisor, yes.

Q. And you were an Economic Advisor from 1937 to 1942?

A. Oh, yes, I think so. I cannot look my advisor

at that time.

Q. Did you agree with the Board of Directors when they

recommended the acquisition of the Canadian mill?

MR. SIMON: The Board, the Board of the company.

in regard to that matter, I was not one of the Board and

I find it in the Appendix to the report in which it

"and the Board of Directors of the company"

and you would be advised to do so.

information on all matters and financial matters.

ship."

THE CHAIRMAN: Now, you said that

MR. SIMON: Yes, in the Appendix to

that is, that was in answer to some of the questions

the Provincial Government.

THE CHAIRMAN: Oh, yes, I see where you are now. The Appendix is right in the Volume.

MR. SINCLAIR: Yes, the Appendix to Part II is part of that Volume. What I have read is at page 17, and on page 16, in dealing with the submissions of the Province - -

THE CHAIRMAN: Will you read it again?

MR. SINCLAIR: "Canadian Pacific submits", in dealing with the submission of Saskatchewan, "that no useful purpose would be served through a study of unification of all railroads under public ownership." And then on page 16 of the Appendix to Part II, in dealing with the submissions of Prince Edward Island, I read:-

"Canadian Pacific is opposed to the amalgamation of the railway of Canadian Pacific with that of Canadian National."

THE CHAIRMAN: Pardon me, but where is that now?

MR. SINCLAIR: On page 16 of the Appendix. I think, my lord, the position of the Company clearly is this, that it is not, whatever its use might have been, that their view now is not in support of unification or amalgamation, and I think in this statement to the Commission by Mr. Walker, there was some reference to the fact that the Canadian Pacific wished to continue to operate as a private enterprise in competition with the Canadian National as a Government enterprise.

Now, there is the official position of the Company.

Now, irrespective of what views the Company may have had in the past or what views Mr. Armstrong may have had in the past, I think that the situation, that the position now is clearly stated on the record, and I submit - -

THE CHAIRMAN: Now, that is all right, but Mr. Campbell is putting forward the case in his Brief in favour of unification under government ownership and here is an expert witness, Mr. Armstrong, and Mr. Campbell was invited to ask him what he thinks about such a thing.

MR. SINCLAIR: I understand what he is going to ask him is what his views were.

THE CHAIRMAN: We have to see how he proceeds. It is without any prejudice to the attitude of the Canadian Pacific Railway set out in its Brief.

MR. SINCLAIR: I thought I was merely directing an objection to the question as he put it.

THE CHAIRMAN: Well, we will proceed question by question. Mr. Campbell will have to ask the question again.

MR. CAMPBELL: Q. Did you agree with Sir Edward Beatty when he proposed the amalgamation of the Canadian Railways?

THE CHAIRMAN: Did he agree with him at that time?

MR. CAMPBELL: At that time.

THE CHAIRMAN: There is no harm in answering that as far as I can see.

MR. SINCLAIR: What opinion this witness may have had - -

THE CHAIRMAN: We have had other witnesses here, Mr. Sinclair, and you have been allowed to examine them to your heart's content.

MR. SINCLAIR: The only point I want to make - -

THE CHAIRMAN: What Mr. Armstrong says now has nothing to do with the present attitude of the Canadian Pacific.

MR. SINCLAIR: The point I wish to make is this, that any advice that Mr. Armstrong may have given to

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Sir Edward Beatty in his professional capacity I do not think, at this time and under a different situation in regard to the position of the Company, is a proper subject for examination. That is a position I take.

THE CHAIRMAN: Any advice he may have given?

MR. SINCLAIR: Yes.

THE CHAIRMAN: I think the question was whether he agreed. I would imagine that if Sir Edward Beatty had announced a certain policy for the Canadian Pacific Railway after taking the advice and with the consent of his associates what harm is there now in the witness answering that question?

MR. SINCLAIR: I do not think it is proper to ask Mr. Armstrong what advice he gave.

THE CHAIRMAN: What is the exception? Is Mr. Armstrong a solicitor for the Canadian Pacific?

MR. SINCLAIR: No.

THE CHAIRMAN: Well then, what is the privilege you are talking about?

MR. SINCLAIR: If your lordship rules the question proper - -

THE CHAIRMAN: You are attaching an enormously excessive degree of concern to it.

MR. SINCLAIR: I do not think it is relevant.

THE CHAIRMAN: We all know that the Canadian Pacific at a certain time did favour amalgamation of Canadian railways under Canadian Pacific management.

MR. SINCLAIR: That is right.

THE CHAIRMAN: Whether Mr. Armstrong was in favour of that at that time does not affect the present-day views of the Canadian Pacific which you say has changed

Q. Now, I believe you are a resident of the city of New York?

A. Yes, sir.

Q. And you are a resident of the city of New York at the present time?

A. Yes, sir.

Q. Now, I believe you are a resident of the city of New York at the present time?

A. Yes, sir.

Q. Now, I believe you are a resident of the city of New York at the present time?

A. Yes, sir.

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A. Yes, sir.

Q. Now, I believe you are a resident of the city of New York at the present time?

A. Yes, sir.

Q. Now, I believe you are a resident of the city of New York at the present time?

A. Yes, sir.

its attitude. I suppose Mr. Campbell is trying, by questioning Mr. Armstrong who is an expert, to build up a case for Government ownership of railways, which is a different thing, - is that so, Mr. Campbell?

I think really, Mr. Campbell, you could save a lot of time if you would forego asking Mr. Armstrong what he said to somebody twenty years ago.

MR. SINCLAIR: That is my point.

MR. CAMPBELL: Q. Did you answer the question?

THE CHAIRMAN: We will now have a short adjournment.

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MR. CAMPBELL: Q. The question I was asking you, Mr. Armstrong, was this: Did you agree with Sir Edward Beatty when he proposed the amalgamation of the Canadian railways?

A. I never gave it any consideration, sir. Sir Edward Beatty had established a policy and he consulted me on innumerable occasions from 1930 until his retirement, and I think until even after the war broke-out and he dropped the whole subject. At the time he consulted me constantly about it, but at no time can I remember him asking me if I agreed with that policy. He asked me to assess the consequences of the policy or the reverse of that policy from time to time and I made any number of reports on that subject. I do not remember at any time sitting down and thinking to myself whether this was a good policy or otherwise. I was being consulted as an economist.

Q. To Mr. MacPherson a few minutes ago, you said, you

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urged Sir Edward Beatty to make certain statements in his speeches?

THE CHAIRMAN: Urged him what?

MR. CAMPBELL: To make certain statements which Mr. MacPherson read to you.

At all events you did not urge Sir Edward to make certain statements with regard to unification?

A. The question never arose so far as I am concerned, sir.

Q. You said just now that he asked your opinion as an economist?

A. Yes sir.

Q. And that you compiled some large amount of material with respect to it. What conclusion did you come to, that it was a good policy?

A. That was never a question, sir. You see the question was: What will be the economic consequences of this policy? What will be the consequences if this policy is not followed? Any economist will, I hope, answer a question of that kind by analyzing all the factors concerned and deal with the thing alone, not with some other extraneous matter.

Q. In analyzing the consequence of unification, Mr. Armstrong, did you conclude that the consequences would be disastrous or otherwise?

A. To the nation, sir?

Q. Yes?

A. Oh, no, I could not see that they would be disastrous to the nation; I could not see in the circumstances that existed at the moment that it would be disastrous to the railway. I did not have to pass on the value of the policy at any time. All I had to do was to discuss what will be the economic consequences of this or of that

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policy.

Q. Did you have to pass on the savings that would be effected by such a policy?

A. Very sketchily, sir, because that work was done by a committee of officers on which I occasionally sat, but the work was very intricate and very long drawn out and involved the full time work of a lot of the senior officers. I had little to do with that because the estimate of savings was made by the various departments, departmental heads, of the company, and except for the fact that they would politely ask me to sit at their meetings occasionally when they were adding up the figures and where I would ask the occasional question as to whether they included this or that or left it out and offered a suggestion or so, I would not do much about it.

Q. At page 109 of the Prince Edward Island brief, in the second paragraph:

"Estimates of those savings were made at various times by the late Lord Shaughnessy, by the late Sir Henry Thornton, by Mr. Fairweather, Economist of the Canadian National Railway, and by the present officers of the Canadian Pacific. These submissions can be regarded with respect as the fruits of deep study, conducted by men of experience. All of their estimates, though made at different times, are very similar in result. The estimate presented by the Canadian Pacific to the Royal Commission was examined and analyzed by independent railway economists ..."

Now would you be a railway economist?

A. Not an independent one.

THE CHAIRMAN: Not what?

A. Not an independent one.

MR. CAMPBELL: That was not the question?

A. But the reference made here is to independent railway economists.

Q. Were you a railway economist?

A. Yes sir.

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Q. And these, it is stated, were analyzed by independent railway economists?

A. Yes, sir, I suppose so.

Q. In the United States?

A. Yes, sir.

Q. Now, you told Mr. MacPherson a few moments ago that some of those railway economists were the finest you know of?

A. Yes, sir.

Q. But you say that, although this was submitted to economists in the United States, it was only incidentally referred to the economists of the C.P.R.?

A. Yes, sir, that is quite true. That is the situation as it existed. I was not at any time asked to analyze this in the sense that Dr. Fournier or many of the other leading economists in the United States were asked to analyze it. They were called in as outsiders and they were asked by the company to examine our estimate of savings and see if they looked like a realistic estimate. Well, I had been in contact with the preparation of that estimate in a casual fashion, as I say, because all the savings that could be made in my department by unification would be very small -- a very small department -- so I was not asked to prepare an estimate of savings in my department, and outside of that, except for sitting on the committee and hearing the various departmental heads go over their savings and occasionally interjecting a remark perhaps -- "Do you think you are putting in enough for that? Do you think you are taking out enough? What is going to happen in this case and that case?" -- and assisting them in that current fashion -- never at any time did anybody hand me the estimates and say, "Will you analyze these estimates and see if they are right or wrong?"

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COMMISSIONER INNIS: Q. Do I understand Dr. Fournier was called in?

A. I know that he examined the estimates. Whether he was called in by the Canadian Pacific or not I am not certain, Dr. Innis, frankly. You know, it is quite a while ago now. I doubt whether he was. As far as I remember, he was an independent student, as Mr. Lesslie Thompson was in Canada, who I am quite sure was not called in by the Canadian Pacific, and many others who came in and looked all over this work, and some of them wrote books about it and some of them wrote articles about it and others gave opinions about it. Which were called in by the company and which were not I do not know, frankly. I certainly personally did not call in Dr. Fournier.

THE CHAIRMAN: Now, this paragraph is only concerned with what it says:

" . . . permanent savings which could be effected by the economic use of existing facilities, and by the abandonment throughout the country of duplicate and triplicate services and trackage."

That is what we are talking about. Those are the only savings that were referred to by these people who are named.

MR CAMPBELL: In that paragraph.

THE CHAIRMAN: Now, what is the relationship of that to the case you are putting forward, Mr. Campbell?

MR CAMPBELL: That leads up to my next question.

Q. There were savings, large savings, anticipated by Sir Edward Beatty from amalgamation?

A. Yes, sir. There was a very elaborate study made of that.

Q. I have asked you if you agreed with Sir Edward

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Beatty at that time. Do you now agree that amalgamation is a dangerous thing?

A. Now you are on quite different ground. In the preparation of the Canadian Pacific submission to this Royal Commission I have been consulted, I have been asked for advice, and, while I do not attempt to say that the submission is the result of my advice, I certainly found the submission as it was finally presented in entire accordance with my opinions.

THE CHAIRMAN: How far are you getting, Mr. Campbell?

MR CAMPBELL: Not very far.

THE CHAIRMAN: We are dealing now with the question as put -- would the abandonment throughout the country of duplicate and triplicate services and trackage and the economic use of existing facilities lead to savings? Well, the answer is obvious -- of course it would. That is, if you abandon a lot of things and use the rest economically, there ought to be savings.

MR CAMPBELL: We will pass, then, to one more question.

Q. Do you believe as an economist, Mr. Armstrong---

THE CHAIRMAN: Pardon me. That does not establish the fact that the savings would be a good thing in the long run. That is another story.

MR CAMPBELL: No, my lord; it merely establishes that there would be savings.

THE CHAIRMAN: Or that the things you would sacrifice in order to bring about the savings would be beneficial to the body politic.

MR CAMPBELL: That is right, my lord. It merely establishes the savings.

THE CHAIRMAN: Here simply the point is that

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there would be savings if you do certain things, that is all.

MR CAMPBELL: Q. Do you believe, Mr. Armstrong, that there is unfair competition at the present time between the Canadian National and the Canadian Pacific?

A. They had to charge the same rates by law, sir, and outside of that I suppose it is the ordinary competition of business.

THE CHAIRMAN: Q. Mr. Armstrong, do you think there is unfair competition between the two railways? If you say Yes or No, then Mr. Campbell may go on and ask you why you give the answer you do; until he does, just give us your conclusion. What do you say, Mr. Armstrong?

A. I do not know of any unfair competition.

THE CHAIRMAN: Now, that may settle it.

MR CAMPBELL: Q. Did you write a report entitled "A Report on the Economic Situation and Outlook at the Close of 1940"?

A. Yes, sir, I did. I am delighted to hear somebody ever saw that.

Q. At page 64 of that report did you say, "This creates" -- meaning any tax-free public utility -- "unfair competition between privately and publicly owned enterprises"?

A. Well, I think there can be little doubt about the general condition there, that if you have two industries competing, two utilities competing for business in the sense in which the ability to compete is based on their respective resources, the one that has the bottomless purse of the public behind it is in a better position than the one that has not. But I did not say, I do not say, that that condition exists as between Canadian Pacific and Canadian National in 1950, sir.

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Q. Now, did you agree then with Sir Edward Beatty in 1933 -- at the bottom of page 106 and the top of page 107:

"If we were mistaken in our appreciation of the value of competition, or did not sufficiently realize the waste and losses it involved, and especially involved in railway competition between the Government of Canada and a private company, . . ."

That is, are the waste and losses greater in competition between a Government railway and a private railway than between two private railways?

A. They may be in given circumstances. It will depend chiefly on the policy of the Government and of the Government owned undertaking. If the Government owned undertaking is told by the Government to proceed regardless of expense and do everything that everybody wants, and if the officers of the publicly owned affair were to follow that sort of instruction and bring about a situation of wastefulness, that would naturally be a very serious situation; but I have said that I do not think there is unfair competition in 1950 between the Canadian Pacific and Canadian National in that sense.

Q. Do you agree that the railways no longer have a monopoly of transportation?

A. Very strongly.

Q. That is, there is competition from water and highways and air?

A. Yes.

Q. Now, something you said just a moment ago: There is nothing inherently wrong -- I am speaking economically -- with public ownership of public utilities, is there, Mr. Armstrong?

THE CHAIRMAN: Do you mean railways?

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MR CAMPBELL: Railways -- including railways.

Q. Provided, of course, as you said a moment ago, that there is no creation of political power, political interference, and provided that the efficiency of the two railways is equal -- I mean, there is nothing inherently wrong economically in state ownership of railways, is there?

A. There is nothing inherently wrong economically in any course of action, sir, that does not produce economic waste. As long as it does not produce economic waste it can be a matter of no great concern, to the economist anyhow, who owns the shares of a company.

Q. But if it produces economic waste, then there is something inherently wrong?

A. If public ownership should lead to economic waste I would say yes, it would be very wrong then.

Q. Or if competition between a public railway and a private railway should lead to economic waste, there is something wrong in that, isn't there?

A. Provided, defining economic waste -- this is total social economic waste. That is, we have to consider the whole economic picture. It may be possible that two trains from Ottawa to Montreal might to the casual observer look like economic waste.

THE CHAIRMAN: Q. That is the point; we are asked what about waste, not something that looks like waste.

A. That is my point, sir. The point is that we have to---

Q. If it is ascertained to be waste, then you say it is a bad thing?

A. Yes. Well, that is all I am saying and all I can say. If it is waste it is waste; if there is no waste there is no waste.

MR CAMPBELL: Q. In the same Report on the

Economic Situation and Outlook at the Close of 1940 which you wrote, Mr. Armstrong, did you at page 66 say this:

"There is no implication of any idea that public ownership of public utilities is inherently wrong."

A. That is right.

Q. Here you were speaking including railways.

"Provided that it does not result in the creation of a political power in the state which may exploit other classes, provided that the efficiency is equal." Did you say that?

A. Yes, sir; I agreed with it just now. I had forgotten that it was in that book.

Q. Now let us go on from there. Did you hear Mr. Gordon give his evidence this morning?

A. Yes, sir.

Q. You understand, then, that there is no political interference with the Canadian National?

A. Yes, sir.

Q. And is it your belief that the efficiency is approximately equal?

A. I have a high opinion of the officers of the Canadian National Railways and of the work they do.

Q. So that satisfies your two possible objections in your economic outlook, and therefore you see nothing inherently wrong in state ownership?

A. Of all railways in Canada?

Q. That is right.

A. The picture is a different situation, sir. I think you should ask the officers of the Canadian National Railways, who know much more about this than I do, but I have a feeling anyhow that the dangers to which public ownership is exposed, the special dangers which I have mentioned, are lessened enormously when public ownership is

operating a competitive utility instead of a monopoly. You see, there is always more danger of all sorts of evils in a monopoly, an absolute monopoly. Now, if you give an entire monopoly to the public ownership the situation might be different from the one which exists at the present time.

Q. I thought you told us not five minutes ago that the railways no longer had a monopoly of transportation?

A. They have a monopoly of the railway business.

Q. But that is not a monopoly of transportation?

A. No; but I did not argue that a monopoly of transportation was necessary to produce the danger. A monopoly of the railway business would certainly produce certain monopolistic effects or dangers.

Q. Did you say that in 1940 when you wrote the economic survey of the situation at the close of 1940?

A. You know, I must say that I do wish I had read that book before I came here. I did not put it into my list of qualifications, because I just printed a few---

Q. It is a good thing to read what you have written.

A. I printed a few copies of the thing at a dollar apiece, and got back a little more than I spent on it. But I am sorry I did not put it in my list of books. It is really a very good book, I think, but I do not think that I am likely to disagree with much in it. I may have changed my opinion on one or more points; I don't know. I have a very flexible mind in these respects.

COMMISSIONER INNIS: Mr. Campbell, when you mentioned political interference, I assume that you had only the one-way type of interference in mind; that is, you were not thinking of the railways becoming a political influence?

MR CAMPBELL: No.

COMMISSIONER INNIS: I think Sir Edward Beatty

made a great point of that issue at the time. That was not in your mind?

MR CAMPBELL: I think it was the opponents of Sir Edward Beatty who raised that issue.

COMMISSIONER INNIS: I think Sir Edward made a great point of the fact that the Canadian National, particularly Sir Henry Thornton, was becoming politically-minded and that he was exercising a fair amount of pressure on the public. But that is not what you have in mind.

MR CAMPBELL: No, sir. What I thought you were speaking of, Dr. Innis, was when Senator Meighen thought that the railway itself would become a political machine.

Q. Now, I think we are all largely agreed, Mr. Armstrong, as to the importance of the farmer's place in the community?

A. Yes.

Q. You said yesterday, or perhaps the day before, at page 18103, about one-third of the way down, in answer to a question by his lordship:

"What I am trying to say is this, that a price disaster to the farmer is a national disaster involving all of us,"---

A. Yes, sir, quite.

Q. -- "it involves every citizen of Canada sooner or later and for that reason I say we must protect the farmer as a part of a necessary national policy."

I think we are all pretty well agreed on that. And you would agree, too, with what Sir Edward Beatty said -- page 109, in the centre of the page:

"And to the Board of Trade at Regina, on February 5, 1935, Sir Edward said:

'There are some who suggest the solution to the railway problem is to be found in an increase in freight

rates. It is true that our rates are among the lowest in the world, as I have already said, and in some cases they may be unnecessarily low. The freight rate structure is, however, a complex affair, and radical changes in it may produce unfortunate effects. A considerable increase in the rate on any major type of traffic, could scarcely fail to be damaging to the national interest, and for my part, I should regret to see this tried until everything possible has been done to eliminate waste in our transportation system." That is pretty much part of it there, as his lordship said, at page 18110, where the Chairman addressed this to you:

"Q. It must be, then, a delicate subject to interfere with?

A. It would be a problem to be dealt with very carefully . . ."

A. Yes, sir.

Q. And Sir Edward goes on then, on page 110, at the end of the second paragraph:

"The essential function of transportation in Canada is to take to market what the farmer produces and to bring back what he buys. However important the other interests involved, waste and unnecessary cost in this respect cannot be anything except a damage to the interests of the entire nation."

A. Yes, sir.

Q. And I think you go even farther than that; you go even farther, if anything, than Sir Edward. In your book "Wheat" at page 110 you say:

"Transportation had its rise in the need of farmer to exchange goods with farmer, and in the later creation of market places to which goods might be sent from the farms of a district for exchange."

A. Yes, sir.

Q. "Its development to meet the intricate commerce of the modern world has become so complex that in many cases its fundamental function is forgotten?"

A. Yes, sir.

Q. And at page 111:

"It is common to hear it said" --
this is from your book --

"It is common to hear it said that agriculture is the basic industry. That is a partial statement of the case. Agriculture is the only industry in the end, for civilization can only exist as long as men keep the art of winning food from the soil."

A. Yes, sir.

Q. And yet, with these cautions of Sir Edward's about tampering with freight rates until everything else is done, for fear we will injure the farmer, at page 18053 of your evidence, the third line from the top, you say:

"I think it was exactly at that point at which they fell down; that is the point on which all those advocates of helping the farmer by reducing his transportation costs fell down."

And at page 18097, the centre of the page:

"If Mr. MacPherson and myself agreed about this and we stumped Saskatchewan together, we might change their minds, but that is going to be difficult, so what we have to do is to get down to realistically considering what are the difficulties of the western farmer and what we can do about it. I say certainly not freight rates."

A. That is right, sir, quite true.

Q. Now, as to the movement of freight, I don't know

that you were asked this question, but the witness just before you, Mr. McDougall, was, and I believe he said that the normal movement of goods in Canada is east and west; that all that has been said by any of the provinces who urge that the national policy has transformed a normal north and south movement into an east and west movement, that those arguments are wrong. As I say, I do not think you were asked that. What have you to say about that?

A. What Professor McDougall said -- I discussed that at great length with Professor McDougall over many months now, in fact over years. What I think he is trying to say, and what I certainly should like to say, is this, that there has been a feeling in this country that had this not become an independent nation, an independent economic entity, traffic would naturally flow north and south, and that as far as I can see that is not broadly true. You may find cases in which the independent existence of the nation as an economic entity has led to the blocking of commerce moving north and south -- of course you are bound to find that in the case of two nations situated alongside each other -- but the great flow of traffic is normally east and west, and would have been normally east and west; regardless of what particular tariff policy had been adopted, I think we would have developed that way. It would have been a slightly different development, you see. For example, I do not think that Winnipeg would have had much of a chance as against Fort William -- I mean as against Chicago, but except for that, that you would have done some damage to various locations in Canada which probably prosper more under the present tariff system than they would have under free trade between the two countries, I think the broad movement would be still east and west, because it is still east and west in the comparable areas of

the United States.

Q. You think that?

A. I believe so, sir.

Q. I took down, it is not broadly true that it is north and south?

A. I beg your pardon, sir?

Q. The way I took it down was that you said first, the statement that there would normally be a north and south movement is not broadly true?

A. No, not for Canada as a whole.

Q. What would you say about the Maritime Provinces?

A. I am inclined to imagine that -- if there had been no economic union of Canada, if there had been free interchange with the United States -- is that what you mean?

Q. I am not putting it "if" anything. I am just saying, what is the normal? Have we been forced into an artificial east and west channel?

A. By what force, sir? What has forced us into it?

Q. Any combination of forces; presumably the tariff, let us say?

A. If you are talking about the tariff, I can only say that there must be effects of the tariff on---

THE CHAIRMAN: Q. There must be what?

A. Effects of the tariff on the development of each portion of the country. In some portions of the country they may feel that the good effects have been outbalanced by the ill effects and vice versa. I have seen studies attempted in that direction. I have never been too sure that I could prove anything myself. All I can say is that I think that the Maritime Provinces are doing pretty well and going to do pretty well just now, that if I were a Maritimer I would be inclined to talk with a great deal of optimism about the future. I am not attempting to argue

that there has been no ill effect on the economy of the Maritimes from the tariff. There certainly ^{has} been some good.

MR CAMPBELL: Q. The question was this: Do you consider that in the Maritime Provinces the national policy has forced an unnatural east-west---

A. I do not think so to any extent. East and west, you see, are quite concepts. In Montreal we always refer to the points of the compass by the wrong names, from habit, and I think we are inclined to use this sort of language kind of carelessly. Buffalo and Chicago are a lot west of the Maritime Provinces, for example, and Detroit, and there would be a lot of traffic, I imagine, if the Maritime Provinces were not behind the Canadian tariff. I imagine there would be a lot of traffic between the Maritime Provinces and Buffalo, Detroit, Chicago and points west. Merely crossing the border does not turn the traffic north and south; that is my point.

Q. Boston and New York?

A. Yes, quite, but merely crossing the border does not turn all the traffic north and south.

Q. Would the majority, would most of the traffic be north and south normally in the Maritimes, apart from the national policy?

(Page 18444 follows)

A. With a tariff? I have no idea, sir.
I would have to study that subject for a great deal more time than I have given to it yet. I have no idea. I am sorry.

Q. You made an address at Niagara Falls on May 5, last?

A. Yes.

Q. Had you made any study of the subject for that occasion?

A. Well, I think that address is what I am trying to say now.

Q. Do you think that the maritimes are part of Canada?

A. Yes, sir.

Q. Did you, in your address of May 5, 1949, at Niagara Falls, say this:

"The answer generally given is that . . . Canadian trade having been forced into artificial . . ."

Canadian trade, including the maritimes --
" . . . having been forced into artificial east and west channels, in place of moving naturally north and south, freight movement in Canada has to extend over unnecessarily long distances."

That, I submit, is mere nonsense. The natural flow of trade in the United States, as in Canada, is east and west."

Had you given any thought to the maritime provinces when you said that?

A. Oh, yes, sir. I had given it about the same amount of thought that I had given when you asked me

1. The first part of the report deals with the general situation of the country and the progress of the work during the year. It is divided into two main sections: the first section deals with the general situation of the country and the progress of the work during the year, and the second section deals with the specific results of the work.

2. The second part of the report deals with the specific results of the work. It is divided into three main sections: the first section deals with the results of the work in the field of agriculture, the second section deals with the results of the work in the field of industry, and the third section deals with the results of the work in the field of commerce.

3. The third part of the report deals with the financial results of the work. It is divided into two main sections: the first section deals with the income of the organization, and the second section deals with the expenditure of the organization.

4. The fourth part of the report deals with the administrative results of the work. It is divided into two main sections: the first section deals with the organization of the work, and the second section deals with the management of the work.

5. The fifth part of the report deals with the social results of the work. It is divided into two main sections: the first section deals with the social work of the organization, and the second section deals with the social work of the individual members of the organization.

6. The sixth part of the report deals with the future prospects of the work. It is divided into two main sections: the first section deals with the future prospects of the organization, and the second section deals with the future prospects of the individual members of the organization.

the other question.

I have not attempted a detailed analysis of any kind in my career of the effect of the tariff upon the flow of trade to and from the maritime provinces.

Broadly speaking I would say that the maritime provinces are more likely, than any other portion of Canada, to have had their trade diverted east and west by the tariff; but that the amount of the diversion is probably not as important as is sometimes suggested.

You really must remember that the mere fact that the traffic crosses the border does not really divert it into a north and south direction.

THE CHAIRMAN: What tariff are you talking about?

A. The customs tariff.

Q. You mean the Canadian customs tariff or the United States customs tariff?

A. The Canadian customs tariff, to which Mr. Campbell directed your attention.

Once again, you have to be careful in using language of this kind.

In Boston they speak of the maritime provinces as being "down east". They regard them as an east and west movement.

They regard the maritimes as being at the extreme eastern extremity of North America. There could not be any normal direction for its traffic except east and west. Where else could it go? I do not know how you can have any traffic out of the maritimes which would not, generally speaking, be east and west.

MR. CAMPBELL: Q. You are not a geographer?

A. I am not. It may be that I am all wrong about it. But I have seen several maps in my time.

Q. Would you say that Boston and New York, to the maritimes are out west?

A. To a Bostonian, the maritimes are down east. That is the language used every day on the streets of Boston. I can swear to that.

Q. You are swearing to it?

A. Yes. I swear that that is the language used every day in Boston, where I have lived for many years, and where I have been frequently since.

Q. And you reiterate that in the maritime provinces, as far as tonnage is concerned, ^{not} the north and south movement ^{but} rather the east and west, is more intense?

A. I would say ^{so,} quite definitely.

Q. Yet you say that you are cautious in making statements?

A. Yes, sir. That is a very cautious statement.

MR. CAMPBELL: That is all, thank you.

THE CHAIRMAN: Does anyone else wish to question Mr. Armstrong?

MR. COVERT: I have a few questions.

EXAMINATION BY MR. COVERT

MR. COVERT: Q. Mr. Armstrong, I just want to clear up one little point about the Widow Jones case.

In the Widow Jones case you referred to one situation where the price was 20 cents a dozen, and she

paid one cent for cartage. And then her neighbour Mr. Smith hauled them for nothing, and she got nineteen cents?

A. Yes.

Q. And then the price goes up to 25 cents and neighbour Smith charged 2 cents for the cartage, and she now got 23 cents for the product?

THE CHAIRMAN: I thought it was 26 cents and 24 cents.

MR. COVERT: Q. If the carrier had not raised his price from one cent to two cents, but had left it at one cent, she would have received 24 cents?

A. You get into market economics there?

Q. Oh, let us forget about that for the moment. Would that be right?

A. If she offered her eggs at the price at which she offered them, and had a two-cent rate, and then got a one-cent rate --

THE CHAIRMAN: What is that? The case you gave us the other day was where the village storekeeper was the one who said how much she got. He paid her 20 cents, and her neighbour brought them in for one cent.

And when they became 19 cents, the neighbour brought them in for nothing.

And then when the merchant was willing to pay 26 cents --

A. There was competition, yes, sir.

Q. Then the carrier doubled the rates on Mrs. Brown and charged her two cents instead of one cent?

A. Yes, sir.

Q. So the widow, instead of receiving 26 cents

or 25 cents, which she would have had if the freight was only one cent, she received only 24 cents, because Mr. Brown had doubled his charge. Isn't that the case?

A. That is the case, sir.

THE CHAIRMAN: I think you had better stick to that case, Mr. Covert.

MR. COVERT: Q. Do you say that she then is not paid the increase in the freight rates, or in the carriage?

A. I have repeated several times, and I repeat again, if I may --

Q. You cannot answer it with a yes or a no?

A. I could say yes or no.

Q. But could you answer it with a yes or a no?

A. I am sorry. I shall have to make this statement if I am to be depended upon as a witness.

In a buyers' market, the buyer pays the transportation charges. If it is an absolute buyers' market, that principle applies absolutely.

THE CHAIRMAN: Q. But Mr. Covert has not put any question to you about a buyers' market. He just asked you, in the particular Jones case, who paid the two cents? And you said Mrs. Jones.

A. In a sellers' market?

Q. No. In that market.

A. In that 25 cent market?

Q. Yes.

A. I said we had got into a sellers' market.

Q. Please leave it there. We have no necessity to make it an argument. We have had it. Are you through with Mr. Jones Mr. Covert?

MR. COVERT: Yes. I am through with the Jones case.

MR. COVERT: Q. Now, Mr. Armstrong, would you say that there is no middle ground between the position of those who say that the farmers in the west always pay the freight on the wheat, and your position, that that is not so?

A. Once again: That is not my position, if you don't mind.

Q. Can I put it to you this way?

THE CHAIRMAN: It is the position of some people.

MR. COVERT: Yes.

THE CHAIRMAN: And it seems to me that the two positions are absolutely opposed to each other.

In one case, the farmer pays the cost for getting his wheat to Liverpool. In the other case, the person at the other end says no. I pay the cost of getting that wheat here from Regina.

What I want to know is: Can you find any middle ground for us between those two extremes?

THE WITNESS: Might I say that the correct middle ground --

MR. COVERT: Q. You agree with neither of those?

A. I do not agree that in all circumstances the buyer pays all the freight rates. I do not agree that in all circumstances the seller pays all the freight rates.

THE CHAIRMAN: That sounds hopeful.

MR. COVERT: Q. Then what you say^{is:} That in some circumstances the farmer or the producer pays the freight rate?

A. Yes, sir.

Q. And in some circumstances the buyer pays

the freight rate?

A. You see, you have got a precise test, the curve.

THE CHAIRMAN: Q. May I add a factor? Is there a third case in which each pays a part?

A. Yes, sir, there is bound to be.

If we start out with the assumption that in an absolute buyers' market the ^{buyer} pays all the freight rates; and we operate with another assumption that in an absolute sellers' market, the seller pays the freight rate. And then, in between you have a degree of effect which changes as you move up, in the intensity.

MR. COVERT: Q. You have to consider the facts of each case to determine who does bear the freight?

A. Yes, sir, oh, yes, sir.

Q. And the circumstances are many and varied?

A. Yes, of course, sir.

Q. And there may be a time where, temporarily, one may pay the freight; and then the incidence of that is shifted?

A. Yes.

MR. COVERT: That is all I have. Thank you.

THE CHAIRMAN: Thank you, Mr. Armstrong.

COMMISSIONER INNIS: Q. I suppose we could say that the price of wheat -- I am not worried about the distinction between a buyers' and a sellers' market -- but if the price of wheat comes to a focus, it is affected by wheat production all over the world?

A. Yes, sir.

Q. By the wheat production in the Argentine, or

in Europe, and the information in regard to these wheat conditions is constantly coming into the hands of the dealers. Under those conditions, is it not pretty difficult to say whether you have a buyers' or a sellers' market?

Is it not pretty difficult to say that if there should suddenly be an increase in freight rates in this vast producing area, that it will be passed on quickly, under extremely competitive conditions, such as you have?

A. It is, because, normally speaking, the tendency is for the wheat market to be a buyers' market, in that the buyers' are very well organized and are very skilful, and that they do run against sales policies which I think are sometimes rather weak.

That is my reason for saying that in the case of wheat it is almost the normal thing that the freight rates be paid by the buyers because it is a buyers' market, generally.

Q. Why do you say it is the buyers' rather than the sellers' market?

A. I would not go so far as to say that in all circumstances, the transportation charges always, economically, lie on the buyers, but there may be cases in which that is not true.

I am almost sorry that I weakened my statement at that point, because it seems to have led to a lot of misunderstanding.

The wheat market is definitely inclined to be a buyers' market because of the greater skill, in my opinion, and the greater wisdom of the buyers as compared to the sellers. I think the sellers have been

inclined to be too timorous, and I believe that almost any alteration in the transportation charges will inure to the advantage or disadvantage of the buyer and not to the seller.

Q. One thinks of competitive conditions, and when one thinks of an assumption of a monopoly situation, that must be rather a limiting type of development?

A. It is much more powerful than most people realize. I do not like to mention names lest I land myself in a libel suit. But I can say that before the Cereal Marketing Board began to function in Great Britain, the control of buying passed into the hands of four or five large companies who, unquestionably, had telephone connection with each others offices. I hesitate to say that they consulted each other about prices, but they may have done so.

I do know that they had agents in every market in the world. Each of them had an agent on the floor of the Winnipeg Grain Exchange all the time. I knew some of those agents personally.

Those men were in a position to do some extraordinarily skilful buying. Therefore, I would believe that ⁱⁿ a monopsony, a buyers monopoly had, to no small extent, been created in ^{the} world wheat market.

THE CHAIRMAN: You really mean a buyers' Combine?

A. Yes, a buyers' combine, sir. It was very strong, and I think it is very strong now. The British Cereal Marketing Board is in a remarkably strong position.

COMMISSIONER INNIS: An increase in freight

rates in Canada would have but a very weak effect on other regions?

A. Yes, sir.

Q. But its effect would be felt very quickly in its own region?

A. Yes, and over a period of years it might never be felt in other regions because the buyer is able to persuade the people in different markets to sell at varying prices.

THE CHAIRMAN: What is the next item on the agenda?

MR. COVERT: We shall continue with the case of the Canadian National.

THE CHAIRMAN: Very well. We shall now adjourn for lunch.

----- At 1:00 p.m. the Commission adjourned until 2:45 p.m. today.

Ottawa, Ontario,
Friday, March 17, 1950.

A F T E R N O O N S E S S I O N

THE CHAIRMAN: Now I understand that we come back to the Canadian National.

MR O'DONNELL: May it please the Commission:

By reason of the fact that express reference was made in Mr. Gordon's submission to a part of the formal submission, which is Exhibit 214, I would, with the permission of the Commission, like to read these several pages. I will promise not read any more during the course of the hearings than necessary.

THE CHAIRMAN: It would have been better if we had had a copy of this submission before Mr. Gordon. We had no opportunity to read it in advance. We may have to give it consideration later on.

MR O'DONNELL: Oh, I assume you will.

THE CHAIRMAN: I mean, it is pretty hard to go right into examining somebody on it now, because all we know about it is from hearing it read once.

MR O'DONNELL: Yes, that is true.

THE CHAIRMAN: What are you going on with now?

MR O'DONNELL: Well, there is reference in the submission, my lord, to certain pages of the formal brief, and I thought that, just for the purpose of completing the submission, I would ask your lordship and members of the Commission to be good enough to allow me to read those few pages. They are relatively short. They are referred to at page 3 of Mr. Gordon's statement.

THE CHAIRMAN: What pages are they?

MR O'DONNELL: I refer to page 75, my lord, of the formal submission. I thought it well to put ^{it} on the record at this point, before we got too far away from Mr.

Gordon's submission, as this really forms part of it.

I commence reading at page 75:

B. - GENERAL DESIRABILITY OF ADJUSTMENT.

The financial difficulties of the Canadian National and the desirability of solution of them, so far presented in this brief can be supported by examination of the Company's books. But columns of figures are not the only factors involved. There are others which although they cannot obtain an auditor's certificate, have an important effect upon our financial results. That these factors are largely psychological does not lessen their importance and they have to be taken into account in any consideration of this problem.

Since the railway is public property, the public is entitled to receive a report on its annual operations in a form comprehensible to all. Only by this means can the public form an opinion of the soundness of the Railway's management and the value of the property. But because of the intricate nature of the financial structure and the complexities of the operating disabilities, present circumstances make the preparation of such a report impossible. Therefore, the average uninformed citizen (which embraces most of the Company's own employees) is merely confused. He is unable to analyse or understand the true picture. The result is that the magnitude of the deficit continues to overshadow all other considerations.

This being true in this country where the average man is acquainted with the railway by name and has some appreciation of its size and physical features, it is even more lamentably true elsewhere, principally the United States, where even this knowledge is not widely held. It is easy, therefore, as is often

the case for those so disposed, to ignore the good and publicize the bad to their own advantage even if, in the process, the false picture they present reacts to the disadvantage of our Company and our country.

Everywhere, therefore, the view is held that the Railway is one that cannot be operated at a profit. While informed opinion, understanding the situation, makes due allowances, it is uneasy when, as is inescapable under existing circumstances, the deficits are large. Uninformed opinion, representing the mass of the thinking, makes no allowances at all and lays the blame on management and not on the real causes.

It is inevitable that these factors, singly and in combination, should be injurious to the morale of those, officers and employees alike, who are responsible for the Company's administration and operation. That the personnel has been able to withstand these debilitating influences and maintain a high morale, is a tribute to their intelligence and their powers of perseverance. But it cannot be denied that the effects are being felt. This is understandable. It is impossible for men of spirit and enterprise, in any walk of life, to endure a state of psychological servitude brought on by a fallacy, without in the end being affected by it.

The responsibilities of railroading are immense and they are exacting. To be done properly, the job requires every man's full attention, his full thought and his full effort. It follows, therefore, that if in addition to shouldering the normal load of business, the management and workers of the Canadian National must also shoulder the crushing weight of unrealistic financial results, which they, as public

servants, are constantly called upon to explain or justify, there will be a loss of efficiency which will be reflected in losses on the pages of the ledgers. Continuance of deficits which are not of the management's making and which are beyond the management's ability measurably to reduce, will certainly result in destroying incentive. It is the nature of man to desire to work with and for a successful enterprise.

The men and women who work for the Canadian National represent a cross section of the people of Canada. They may not understand the bewildering maze which constitutes the Company's financial structure nor have full appreciation of its operating disabilities but they are not happy about financial results proclaimed to be the result of their year's best efforts and they are discouraged by the criticism that ensues. However, they do understand the scope of the Company's operations and the irreplaceable importance - strategic and commercial - of the Company's lines to the nation. In working for the Canadian National they feel also that they are doing a job for Canada, as indeed they are. They know their Railway is the largest in Canada, the only one with lines in every province and they cannot understand why another railway, inferior in size, should become the standard in rate matters. Nor can they understand that although they are as good rail-roads as any other and are working just as efficiently, the Railway they work for concludes each year with a large deficit. That same lack of understanding is shared by the great body of the Canadian public and if the cause of it is allowed to continue, when there are remedies to effect a cure, the unfortunate effects will

be widespread not only throughout the Railway but throughout the nation.

The present financial structure of Canadian National Railways is not only unwieldy and confusing but it throws a false light on the operations of the system and obscures its true value to Canada. This condition is greatly aggravated by the losses attendant on the operation of the lines in the national interest. Explanations of why deficits occur have small and doubtful value. Explanations are too readily interpreted as excuses and the public is either suspicious or intolerant of them.

It is necessary that the public should understand that the Canadian National is not only a business enterprise, but, equally important, an instrument of national policy in the execution of which it is expected to operate extensive mileage and other facilities which are not and cannot be profitable by ordinary standards of business. To this end, clarification of its position to the point where its annual results will provide an understandable yardstick by which the public can measure its operating efficiency, is essential.

MR O'DONNELL: That is the end of what I wanted to read. I read that, my lord and members of the Commission, because of the express reference which was made in Mr. Gordon's submission this morning.

Now I would call Mr. Cooper.

THE CHAIRMAN: Do you intend to examine Mr. Cooper partly on Mr. Gordon's statement this morning?

MR O'DONNELL: Yes, my lord.

THE CHAIRMAN: Well, as I have already said, we have not had much time to look at it, and, more than that, Mr. Gordon in the course of that statement added a paragraph, didn't he?

MR O'DONNELL: Yes, he did.

THE CHAIRMAN: Have you it there?

MR O'DONNELL: Yes, my lord. It is merely with respect to page 15, after the paragraph numbered 3. The paragraph numbered 3 dealt with the future development lines.

THE CHAIRMAN: Would this be a paragraph numbered 4?

MR O'DONNELL: No. It is merely an interjection by way of saying, "When I said what I said in paragraph 3, I would not wish it to be understood that the Canadian National would undertake to build any railroad in the future, provided not more than 60 per cent was to be financed by interest-bearing securities." In other words, Mr. Gordon simply said, "Well, that is what should be done in the future, but each case must be decided on its own merits." I might read exactly what Mr. Gordon said again.

THE CHAIRMAN: A safeguard provision?

MR O'DONNELL: That is right. He said this: "In saying what I have just said, I would very definitely wish to emphasize and make clear that there is no intention

on the part of the Canadian National to undertake the construction of any and all railroads which might in the future be suggested, even if 40 per cent of the capital were to be provided by way of equity capital. The Canadian National should be free to consider on its own merits each individual case which might present itself in the future."

THE CHAIRMAN: Then that is a modification that applies only to---

MR O'DONNELL: To paragraph number 3, that is right, my lord. It relates solely to that.

THE CHAIRMAN: All right. Now, Mr. Cooper.

T. H. COOPER, Called.

EXAMINED BY MR O'DONNELL:

Q. What is your position with the Canadian National Railways, Mr. Cooper?

A. I am the Chief Accounting Officer. My title is Vice-President and Comptroller. I was appointed Comptroller in 1938. I was made a Vice-President in 1945.

Q. How long have you been with the Canadian National Railways or its predecessor companies, Mr. Cooper?

A. Since 1912.

MR O'DONNELL: I think, my lord, that it might save time if I would just read on to the record Mr. Cooper's experience and qualifications.

THE CHAIRMAN: Yes.

MR O'DONNELL: I am instructed that prior to Mr. Cooper's having been appointed Comptroller he was Assistant Comptroller, and before that General Auditor of the Canadian National Railways; that since 1923 he has been pretty much in charge of the final accounting at Headquarters for the Canadian National System. When the administration of the Canadian National Railways was conducted by a Board of Trustees, who superseded the Board of Directors, Mr. Cooper acted from 1934 to 1936 as assistant to the late Honourable Mr. Justice Fullerton while he was Chairman of the Board of Trustees. During that period Mr. Cooper developed the proposals which finally resulted in the Capital Revision Act of 1937. Apart from his duties as Chief Accounting Officer for the Canadian National Railway System, Mr. Cooper is Comptroller of Trans-Canada Air Lines and Vice-President and Comptroller of Canadian National West Indies Steamships, which two companies are not included in the railway system. He is also Chairman of the Pensions Board of the Canadian National Railways, which is a board

of seven representing the railway and three members representing the employees. He is a trustee of Canadian National Railways Securities Trust, consisting of five trustees, three representing the Government and two representing the railway. He is Chairman of the Accounting Committee of the Northern Alberta Railways, President of the Grand Trunk Insurance Society, and Trustee and Member of the Board of Management of the Grand Trunk Superannuation Association, Chairman of the Administration Committee for the International Aviation Building at Montreal, and member of a number of committees and director of a number of corporations. He is also a member of the General Committee of the Accounting Division of the Association of American Railroads.

Q. Now, Mr. Cooper, when you say Canadian National System, you are not referring to the Canadian National Railway Company?

A. No.

Q. What are you referring to?

A. I am referring to the combination of companies which comprises the Canadian National System. There are between 80 and 90 companies; I think the exact number would be 85. A number of these companies are United States corporations, and the others are Canadian. We have one company incorporated under the laws of France.

THE CHAIRMAN: Q. Under the laws of what?

A. Of France; a French company.

(Page 18464 follows)

Q. Can you tell the Commission when the consolidated balance sheet and income statement were first put together with respect to the Canadian National Railways?

A. The consolidated income statement and balance sheet for the railway system was put together in 1923 under my immediate direction. It was then that we had to decide to take up in our accounts the accounts of the Canadian National Express, the accounts of our commercial telegraphs and subsidiary company operations, and it was on my recommendation that the directors decided to adopt depreciation accounting for the rolling stock in Canada in the year 1940.

Q. Now, Mr. Cooper, have you had anything to do with the preparation of the detail data referred to in the submission which Mr. Gordon,, the Chairman and President of Canadian National Railways, made to the Commission this morning?

A. Yes, Mr. Fairweather and I have co-operated on that part of the submission which leads up to the recommendations made by the President. Mr. Fairweather and I have many times worked together on problems which are both financial and economic. For example, we both gave evidence in the action brought by Lovibond against the Grand Trunk and Canadian National Railways as to the value of the Grand Trunk preference stock. This was an action in the Supreme Court of Ontario. Generally I furnish the factual accounting information together with my views as an executive officer of the Railway and Mr. Fairweather testifies as to the physical characteristics of the railway, its operations, and the economic significance of the facts developed.

Q. Mr. Fairweather is Mr. S. W. Fairweather, Vice-president and Director of the Bureau of Research and Development, Canadian National Railways?

A. Yes.

Q. He will be called later.

THE CHAIRMAN: There is only one Mr. Fairweather?

MR. O'DONNELL: There were two originally, that is why I wanted to identify him. Mr. S. W. Fairweather who is with us this afternoon is Vice-president of the Company and he will be called later.

Q. May I take it then Mr. Cooper, that your testimony will be directed more particularly to the accounting figures in the submission, rather, the statement which was made by Mr. Gordon this morning, and that perhaps you will supplement your evidence by some general observations?

A. Yes, quite so. I want to speak - -

THE CHAIRMAN: How far does Mr. Gordon - -

MR. O'DONNELL: There are a number of figures mentioned in Mr. Gordon's statement this morning, and I intend to have Mr. Cooper speak to these, and prove and explain them, and give such explanations as he can.

THE CHAIRMAN: I would like to know what pages.

MR. O'DONNELL: Having done that I intend to go to the main Brief and carry on through there.

Q. Referring to the statement, Mr. Cooper, - -

MR. SINCLAIR: What part of the statement?

MR. O'DONNELL: I am going to give you the page and figure I refer to..

The first figure, Mr. Cooper, is that which appears on page 6, the figure being \$1,344,000,000.

A. This amount you will find in the balance sheet of

the railway system for that year, the year 1948.

Q. Then, that first figure of \$1,344,000,000, you say will be found in the balance sheet for 1948?

A. The total of 1,\$1,344,000,000 is a combination of two figures appearing on the balance sheet.

Q. In order that we may understand that, will you be good enough to produce as Exhibit 217 a copy of the Annual Report of the Canadian National Railways for the year 1948?

... <u>EXHIBIT 217</u> ...	filed by	:	Canadian National
	Mr. O'Donnell	:	Railways, Annual
		:	Report, for the year
		:	1948.

Now, those two figures, Mr. Cooper, that you have just mentioned, and which are on page 6 of the statement made by Mr. Gordon this morning, are to be found on page 13, are they not, of Exhibit 217?

A. They are to be found on the balance sheet on page 13. The figure of \$1,344,727,483 comprises \$584,232,658 of funded debt in the hands of the public and \$760,494,825 of loans from the Government of Canada.

Q. Those are the second and third figures at the top of page 13?

A. Yes, and full details of those figures will be found on pages 20 and 21 of the Report.

Perhaps I should explain that in the figure of \$584,232,658 of funded debt in the hands of the public \$10,450,008 is held in special funds of the railway company, - I am referring to the self-insurance fund and the pension contract fund.

Q. And that figure of \$10,450,008.06 likewise appears at the top of page 13 on Exhibit 217?

A. Yes, and I would like to explain that figure of \$10,450,008.06. We consider system securities held in special funds as outstanding debt.

Q. Why is that, Mr. Cooper?

A. That is so, because the interest on these securities is paid into these special funds; such interest is included in our fixed charges and necessarily our interest must be tied in with the principle of the outstanding securities.

THE CHAIRMAN: I do not understand. What kind of interest was it?

A. I was going on to say that the interest on these securities which are held in these special funds is included, first, in the amount of our fixed charges and, in turn, the amount of our fixed charges must be related to the principle of the debt in the figure that I have mentioned.

We have always considered that system securities held in these special funds are similar to securities in the hands of the public. I may say, too, that the figure of \$1,344,727,483.13, is the figure for 1948 corresponding to the figure of \$1,272,330,000 for 1947, shown in Table No. 7.

THE CHAIRMAN: Apparently you are giving figures I do not see very readily. You see, we had been dealing with the figure of \$584,232,658. What figure do we go to next?

A. On page 46, sir, of our main submission, we show the development of our fixed charge debt from 1922 to 1947. At the end of 1947 our fixed debt amounted to \$1,272,330,000, and what I was saying really is that the figure of \$1,344,727,000 about which we - -

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911. 637.71 (1931)

Y. H. d. OCC. A. 1. 12. 14

THE CHAIRMAN: \$584,232,658.02 added to \$760,494,825.11 makes a total of \$1,344,727,483.13. It comes out right. Thank you.

MR. FRAWLEY: It is the same figure which Mr. Gordon gave this morning, rounded out to \$1,344,727,483.13.

MR. O'DONNELL: Q. And you point to the fact that that total figure of \$1,344,727,483.13, which is at the top of page 13 of the Balance Sheet, of Exhibit 217, ties in with figure on table VII, at page 46 of the main submission?

A. Yes. And if the table on page 46 had been extended to include the year 1948, the figure in that year would have been \$1,344,727,483.13.

Q. Now, the next figure in Mr. Gordon's statement is one which appears at page 7, and it is the figure of \$804,000,000 of interest bearing debt taken into the Canadian National system at its inception.

THE CHAIRMAN: Where is it to be found?

MR. O'DONNELL: On page 7. Is that a correct figure, and where might one find it in any public document?

THE CHAIRMAN: You say the figure is \$804,000,000?

MR. O'DONNELL: Yes, \$804,000,000, and it is on page 7 of the statement made this morning.

THE CHAIRMAN: What year did you have in mind?

A. 1923; January 1st, 1923.

COMMISSIONER INNIS: Q. Does the Grand Trunk Railway include the Grand Trunk Pacific?

A. No, sir.

MR. O'DONNELL: Will you please tell the Commission where that figure may be found in any public document? First, it is a correct figure, is it not?

A. You use the round figure of \$804,000,000?

Q. Yes.

A. Well, the correct figure is \$804,503,144.

THE CHAIRMAN: Where is that to be found?

A. As of December 31, 1922.

It does not appear in any of the Annual Reports of the railway, for the simple reason that the system ^{operations} commenced/on January 1, 1923, and no report was published for the system prior to January 1, 1923. By reference to page 9 of the Report --

Q. You mean of this Report?

MR. O'DONNELL: No. Page 9 of another document.

THE WITNESS: I am now going to produce, if I may, as an Exhibit, a publication of the Dominion Bureau of Statistics entitled:

"Canadian National Railways
1923 - 1948".

The figure of \$804,503,144 appears on page 9, in column H of that publication.

MR. O'DONNELL: Q. I produce that publication as Exhibit No. 218, and we will ask the Commission to be good enough to see where the figure appears on page 9 of column H which you have referred to.

<u>EXHIBIT NO. 218:</u>	<u>Filed by Mr.</u>	<u>Pamphlet entitled</u>
	<u>O'Donnell:</u>	<u>"Canadian National Railways</u>
		<u>1923-1948".</u>

THE CHAIRMAN: Q. What page are you referring to?

A. I referred to page 9, Column H, and the second figure in that column. That is the funded debt outstanding

at December 31, 1922.

THE CHAIRMAN: Page 9, Column what?

THE WITNESS: Column H.

MR. O'DONNELL: The second column, and the second figure in that column.

THE CHAIRMAN: Yes.

MR. O'DONNELL: And it likewise appears on page 46 of the main submission, that is, in Table VII.

A. Yes, it is the first figure in the amount of Canadian National debt shown on that table.

Q. Now, can you give the Commission a list of the individual securities which are comprised in that amount?

A. Yes. I have here an Exhibit which gives the total, making up the total of \$804,503,144.

Q. Will you please produce as Exhibit 219 a list of securities which is entitled: "Unmatured Funded Debt Held by Public"?

A. Yes.

<u>EXHIBIT NO. 219:</u>	<u>Filed by Mr. O'Donnell:</u>	<u>List entitled:</u>
		<u>"Unmatured Funded Debt Held by Public".</u>

MR. O'DONNELL: Q. And after it has been distributed, I would ask you to explain it briefly to the Commission.

That Exhibit 219 consists of three sheets, does it not?

A. Yes.

Q. Will you please explain the document to the Commission in your own way?

A. The statement, Exhibit 219, gives the list of all the securities making the total of \$804,503,144.

There are eighty-four separate issues, and the statement shows those securities which were guaranteed by the Dominion Government, those which were guaranteed by the provinces, and those which were not guaranteed.

It also shows or indicates which of the securities were obligations of the Grand Trunk, which were obligations of the Grand Trunk Pacific, and which were obligations of the Canadian Northern.

Q. Can you tell the Commission what the total obligations of the Grand Trunk were?

A. The obligations of the Grand Trunk Railway Company of Canada totalled \$313,302,843.

The obligations of the Canadian Northern totalled \$371,707,448.

And the obligations of the Grand Trunk Pacific totalled \$119,492,853.

Q. Now, are the securities which are mentioned on page 17 and 18 of the main brief, which is Exhibit 214, included in the list which has just been produced as Exhibit 219?

THE CHAIRMAN: What pages?

MR. O'DONNELL: Q. Pages 17 and 18, my lord; starting at the bottom of page 17 and continuing over to page 18.

A. What was your question?

Q. Are the securities which are referred to on pages 17 and 18 of the main brief included in this tally set out on the list which is Exhibit 219?

A. Yes. The list included \$60,833,333 of Grand Trunk Railway four per cent guaranteed stock; \$34,879,252 of Grand Trunk Pacific, four per cent debenture stock; and \$24,140,174 of five per cent

Canadian Northern Income Charge Convertible Debenture Stock, the interest on which three issues was changed from a contingent basis into a fixed charge.

Q. That is when they were taken into the Canadian National, in 1922?

A. The first item of \$60,833,333 was converted into a fixed charge in 1920; and the other two were converted into fixed charges between 1923 and 1930.

Q. And those three securities which you have just mentioned are set forth -- or reference is made in further detail to them -- at pages 17 and 18 of the main brief?

A. Yes.

Q. Was any part of that \$804,000,000 in 1922 held in special funds?

A. No.

Q. We shall now turn to Mr. Gordon's statement.

COMMISSIONER INNIS: Q. I see there is no maturing date on these issues?

A. No, sir. The maturing date is not shown. We were more concerned in listing securities to make up the figure of \$804,503,144. However, if you would like me to, I could find that out for you.

Q. I was wondering whether you had any bunching-up for the future, or are they spread out pretty well?

A. I could file the annual report for 1923 which would show the maturity date of all those securities. In fact, I think later on we intend to file it as an Exhibit.

MR. O'DONNELL: We will be glad to get that for you, Dr. Innis. It will appear in the annual report, at page 21, for instance, showing the situation

as it was at that date, the date of that annual report which is mentioned, the date of March 1st, which is mentioned on page 21. And we would have similar information for other years.

COMMISSIONER INNIS: Those perpetual debenture stocks show a high rate of interest, five per cent and four per cent?

A. Yes. I might also say that the majority of those debenture stocks were picked up during the war period when we repatriated about \$410,000,000 of these railway securities which were domiciled over in the United Kingdom.

Q. So they are now in your hands?

A. Most of them, yes. I have a figure of about \$17,000,000 of perpetuals outstanding at the present time.

MR. O'DONNELL: I might then say, my lord, that the last figure under the heading "Guaranteed by Dominion Government" which appears on Exhibit 219 --

THE CHAIRMAN: On what page?

MR. O'DONNELL: This list, the last Exhibit we have just produced -- this last item of securities might be stricken off.

THE CHAIRMAN: Will you give me the reference?

MR. O'DONNELL: Exhibit 219.

THE CHAIRMAN: And where is the figure?

MR. O'DONNELL: Right on the first page, and I refer to the last of the securities in the first group under the heading of "Guaranteed by Dominion Government"; I mean the five per cent equipment trust "G"?

THE CHAIRMAN: Yes.

MR. O'DONNELL: That might be stricken off. There is no number set against it, and it is not included in the total.

THE CHAIRMAN: We should just strike it right off?

MR. O'DONNELL: Just strike it right off. These equipment trust issues are not included in the total.

THE CHAIRMAN: All right.

MR. O'DONNELL: The next figure to which I attention would direct/is to be found on page 8 of Mr. Gordon's statement, at the bottom of the page, and it is \$707,000,000?

A. Yes.

Q. What have you to say about that? It is stated there that the net investment expenditures of the system, 1923-1947 inclusive, have amounted to some \$707,000,000?

A. That statement is Table V shown^{on}/page 41 of the main submission.

THE CHAIRMAN: Q. Where did you say it is?

A. The statement of expenditures during that period is Table V on page 41 of the main submission.

MR. O'DONNELL: Will you now turn to page 41?

THE CHAIRMAN: Table V, yes.

MR. O'DONNELL: The last figure at the bottom on the right hand side.

A. The precise figure is \$707,556,744.

THE CHAIRMAN: What is the figure here?

MR. O'DONNELL: It is a round figure of \$707,000,000, which is in Mr. Gordon's statement.

THE WITNESS: You will notice from the table on page 41 that the period 1923-1931, and the period 1932 to 1947 are shown separately.

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KILLED BY THE ENEMY SINCE THE BEGINNING OF THE WAR.

THEY WERE BOTH KILLED BY THE ENEMY
WHILE THEY WERE ON A MISSION TO
OBTAIN INFORMATION ABOUT THE ENEMY'S
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OBTAIN INFORMATION ABOUT THE ENEMY'S
PLANS FOR THE FUTURE.

That separation was made in order to tie ⁱⁿ with the figures which are used in the Duff Report.

Q. Would you just indicate whereabouts in the Duff Report? I take it it is on page 19, is it not, of the Duff Report, where that ^{figure} similar/appears, and how it is arrived at?

A. In the Duff Report at page 19 the capital expenditures of the Canadian National Railways in the period 1923 to 1931 are given as \$456,345,456, and that figure ties in with the first column in Table V on page 41.

COMMISSIONER ANGUS: Q. On page 41, I see that they include Trans-Canada Airlines among the companies in which investment was made. Does that count as a rail asset?

A. No, sir.

Q. So that these figures include a great deal which is non-rail?

A. I would not say a great deal. The Trans-Canada Airline figure is shown on that table as \$22,600,000. It is the next to the last figure.

Q. Is that the only non-rail figure?

A. It depends on what you classify as non-rail. For instance, it includes our hotels at \$29,234,117. I am not sure how you would classify that.

But speaking in a broad way, the investment account of the Canadian National Railways does not include any large figure in what might be called non-carrier activities.

THE CHAIRMAN: Q. Non-carrier activities?

A. Well, non-rail. We generally refer to them as non-carrier.

Perhaps I should also call attention to the statement at the top of page 42 of the main submission.

Q. Exhibit 214, yes.

A. I am speaking of the top of page 242 of the main submission.

Q. Yes.

A. It shows that in the first nine-year period, the average annual expenditures were \$50,705,050; whereas, in the subsequent sixteen-year period, the average annual expenditure was \$15,700,705, which is to say that the expenditures in the second period averaged \$35,000,000 per year less than in the first nine-year period.

Q. And those periods, the first nine-year period, and the sixteen-year period, are set out in detail on page 41 of the brief?

A. Yes.

Q. Now I refer you again to Mr. Gordon's statement. There is another figure at the bottom of page 8 of \$100,000,000 which represented necessary improvements to the property which did not add to the earning power of the system. Can you verify that figure?

A. That is a figure based on one's general knowledge of the situation rather than one disclosed by the accounts. Mr. Fairweather will explain it, but my impression is that it is somewhat of an understatement.

THE CHAIRMAN: Q. What is that?

A. I say that my impression is, it is somewhat of an understatement.

MR. O'DONNELL: Q. From your knowledge of it, you think it is an understatement. Why do you

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say that? We are speaking of the situation not as it is now, but at the time of amalgamation.

A. Referring first to the Grand Trunk: Anyone reading the evidence given by Mr. Kelly before the Drayton-Acworth Commission will note the large amounts he quoted for needed capital expenditures which had had to be deferred because funds were not available.

Q. Would you be good enough to say what page of the report you are referring to in the Drayton-Acworth Commission Report?

A. First, I refer to page XXXVIII.

Q. You mean in Roman numerals?

A. Yes; and I also refer to page XXXIV, where Mr. Kelly, in his evidence, gave evidence as to the amount of capital expenditures needed, which he considered needed to be made to put the Grand Trunk into reasonably good condition.

More convincing evidence will be found in the Grand Trunk Arbitration Award.

Q. Have you got a copy of that "Grand Trunk Arbitration Award" available?

A. I am referring now to pages 31 and 32 of the Grand Trunk Arbitration Award.

Q. That is a document which is published by the King's Printer, and which is entitled "The Award, and Reasons for the Award, Grand Trunk Arbitration" and it is dated, September 7, 1921?

A. Yes.

Q. Would you please refer to the pages of that document which you rely upon, and possibly, inasmuch as we have but one copy, we might read the extract which Mr. Cooper has in mind right into the record.

THE WITNESS: "After all the heavy"---

MR O'DONNELL: Q. You are reading from page 31, are you not, Mr. Cooper, of that report?

A. Yes.

"After all the heavy expenditure made upon the system from its taking over in May, 1920, until the end of that year, deferred maintenance to the amount of many millions still remained to be done in respect of bridges, trestles, culverts, crossings, ties, track, rails, ballast, track laying and surfacing, fences, docks and wharves. Evidence adduced by the Government shows estimated extraordinary maintenance and capital requirements in respect of the Grand Trunk System for the years 1921 to 1925 inclusive as follows:

Extraordinary maintenance	\$ 8,924,318
Remunerative capital	4,780,087
Non-remunerative capital	43,908,612
Total capital	48,688,699
Total capital and maintenance	57,613,017

The estimate for 1920 to 1925 according to testimony on the part of the Government was as follows:

Extraordinary and deferred maintenance	\$ 18,889,343
Remunerative capital	6,887,184
Non-remunerative capital	43,908,612
Total capital	50,795,796
Total capital and maintenance	69,685,139.

A large part of the item for non-remunerative capital consists of estimated expenditures for grade separations in Montreal, ~~xxx~~ Toronto, Detroit, Chicago and other cities, which must be carried out in the non-distant future. Making the most liberal allowance for all that was adduced against these figures, it is clear that the expenditures with which the Grand Trunk

was confronted in May of 1920 for deferred maintenance and capital construction were of most serious ^{financial} amount and of the gravest/consequence. Mr. Kelley's letter referred to above indicated necessary capital expenditure (over and above deferred maintenance) of an amount exceeding \$30,000,000, the principal item being for rolling stock and shop machinery. The above figures as to deferred maintenance and capital expenditures relate only to the Grand Trunk System exclusive of the Central Vermont and Grand Trunk Pacific Systems. The condition of the former as to these items was shown to be quite serious as to deferred maintenance, while that of the Grand Trunk Pacific was of the gravest character."

MR O'DONNELL: Q. Now, that extract speaks then of the condition of the Grand Trunk properties as at the date they were taken over by the Canadian National Railways, and of the run-down and semi-finished condition of those properties. Now, included in that \$707 million there are others, are there not, relating to, for instance, the Canadian Northern?

A. Yes.

Q. Would you tell the Commission what the situation was with respect to the Canadian Northern properties?

A. I am going to refer to the---

THE CHAIRMAN: Pardon me a moment. That brings us back to page 41, does it? The figure is found there, \$707 million.

MR O'DONNELL: Yes, that figure is there, my lord, but included in that figure are certain properties that were taken over, certain expenditures made with respect to the Grand Trunk properties, and the description of the Grand Trunk properties as at that time has just been given by Mr. Cooper, and I am now asking him to describe to the Commission or to give the Commission information concerning the condition of the Canadian Northern properties at that time.

THE CHAIRMAN: Does that come under new lines acquired or new lines constructed or what?

MR O'DONNELL: It is comprised in Mr. Gordon's statement, page 8, my lord.

THE CHAIRMAN: Yes. I was trying to find the item concerning it on this page 41.

MR O'DONNELL: Well, you will not find that exact figure there; you will find the \$707 million.

THE CHAIRMAN: Yes, I know; it is part of the \$707 million.

MR O'DONNELL: That is right.

THE CHAIRMAN: I thought perhaps it was identified here. Where do you refer to in Mr. Gordon's statement?

MR O'DONNELL: The bottom of page 8, my lord. It is by way of explaining the \$707 million, and then there is the statement:

"It is a reasonable estimate that of this amount at least \$100,000,000 represented necessary improvements to the property which did not add to the earning power of the System."

At the time the properties were taken over by the system they were in that run-down and semi-finished condition, and the description of those properties is now being given by Mr. Cooper as at the date they were taken over.

THE CHAIRMAN: Well, I brought you back to page 41. There was a question asked you a while ago about Trans-Canada Air Lines. Now, this page 41 seems to include non-rail and rail items, does it not?

MR O'DONNELL: Q. Will you explain that, Mr. Cooper?

A. Yes, it does, my lord.

THE CHAIRMAN: Q. I see, for instance, you have "Hotels" there, and then grouped with "Hotels" you have "Other non-transportation property." Does that mean non-rail?

A. Yes, sir.

Q. But still after that, though, you do have the Trans-Canada Air Lines, with a further figure, and above that you have "Telegraphs - Commercial"; do you consider that rail or non-rail?

A. We consider it as rail, sir.

Q. Rail?

A. Yes, sir.

THE CHAIRMAN: Well, if you do, that is a sufficient answer.

COMMISSIONER ANGUS: Is it quite fair to describe an investment in Trans-Canada Air Lines as having to do with the run-down and semi-finished condition of the properties taken over?

MR O'DONNELL: Well, it is described as an investment expenditure on page 41. Table No.5 is "Investment Expenditures", but included in that \$707 million---

COMMISSIONER ANGUS: Yes, it is the breakdown of the figure on page 8 of Mr. Gordon's statement. That is headed "Run-down and semi-finished condition of properties taken over."

MR O'DONNELL: That is right; and he is saying that in the \$707 million there were some taken over upon which expenditures were made which represented necessary improvements to the property which did not add to the earning power of the system; and what we are speaking to there is restricted specifically to railways -- the Grand Trunk properties, the Canadian Northern properties, the Grand Trunk Pacific and the Canadian Government Railways. They are included in the expenditures on those properties, but included in the \$707 million.

COMMISSIONER ANGUS: And it includes other things as well.

MR O'DONNELL: Includes other things as well. We are simply speaking to those items in the \$707 million which relate to the condition of those four railways which were taken over in 1923 by the Canadian National.

THE WITNESS: Now, quoting from the Drayton-Acworth Report, page xli---

MR O'DONNELL: Q. Concerning Canadian Northern Railway?

A. Referring to the Canadian Northern Railway, yes. They said:

"We think that \$40,000,000 for equipment, and perhaps \$30,000,000 for additions and betterments, would be a moderate estimate of the system's needs in the next five years, assuming that the Canadian Northern remains separate and independent."

Q. Now, have you any similar information concerning the properties of the Grand Trunk Pacific as at that time?

A. No, I was not able to find any figures indicating the amount of deferred maintenance and deferred capital expenditures which needed to be made on the Grand Trunk Pacific, but I am sure that the position of the Grand Trunk Pacific was even more desperate than that of the Grand Trunk.

Q. And the Canadian Northern, even? You were familiar with those properties at that time?

A. Yes.

Q. Now, what would you say as to the Canadian Government Railways?

A. I have no figures for the Canadian Government Railways, but I think something should be added with respect to the Canadian Government Railways. I have not got a figure, though, to quote.

Q. What would you like to add?

A. I would like for the minute to refer now to a letter addressed to The Rt. Hon. Arthur Meighen, who was then Prime Minister of Canada. The letter was written by Sir Joseph Flavelle. It is dated August 12, 1921. Sir Joseph at that time was Chairman of the Board of the Grand Trunk.

MR O'DONNELL: If you have a copy of that letter, we might produce it as Exhibit 220.

---EXHIBIT 220: Letter addressed to The Rt.Hon. Arthur Meighen, Prime Minister of Canada, by Sir Joseph Flavelle, Bart., Aug.12,1921.

THE WITNESS: I should say that, while Sir Joseph was Chairman of the Board of the Grand Trunk, in this letter he is referring to the National Railway System.

MR O'DONNELL: Q. What was the National System to which he was referring? What did it comprise at that time?

A. It comprised the Grand Trunk, the Grand Trunk Pacific, the Canadian Northern and the Canadian Government Railways.

Q. What page are you referring to?

A. On my sheet it is 5; I am not sure that it is the same.

MR O'DONNELL: It is an extract from page 5, my lord, which will be found on the second page of Exhibit 220, the paragraph beginning "Further, to enable".

THE WITNESS: "Further, to enable the National System to command its share of the country's business on even terms with the Canadian Pacific Railway, some time during succeeding years, large capital sums will be expended for general betterment of track for the consolidation of the separate lines constituting the National System, as well as expenditures for Terminals in Montreal, and for the completion of Terminals in Toronto. These capital expenditures will aggregate \$125,000,000.00 to \$175,000,000.00, and when they are completed, will constitute a new fixe charge of \$10,000,000.00 per annum in excess of the present fixed charges, and equivalent to two-thirds of the

entire fixed charges upon the Canadian Pacific Railway, which stand at \$15,910,516.00 per year, including rental for leased roads and taxes."

MR O'DONNELL: Q. Mr. Cooper, from what you have just told the Commission, you are satisfied that the figure of \$100 million on page 8 in Mr. Gordon's statement is reasonable as representing the amount which was necessarily expended, or, rather, which was expended for necessary improvements to the property which did not add to the earning power of the system?

A. Yes. The evidence is, the Grand Trunk needed over \$50 million; the Canadian Northern needed \$70 million; we do not know the requirements of the Grand Trunk Pacific and the Canadian Government Railways, but undoubtedly it would be a sizeable figure. Sir Joseph Flavelle gave the figure as something in between \$125 million and \$175 million for the National System. Therefore it seems to me that \$100 million is reasonable and can be accepted.

MR O'DONNELL: Now, the next thing to which I would like to make reference, my lord, with regard to Mr. Gordon's statement this morning, is that which appears on page 9 of the statement under the heading "Co-ordination Costs". The submission, the statement, states that it is estimated that \$40 million was expended for co-ordination projects.

Q. What do you say about that, Mr. Cooper?

THE CHAIRMAN: \$40 million?

MR O'DONNELL: \$40 million, yes. The statement reads:

"Co-ordination, it is estimated, has required the expenditure of \$40,000,000 for main-line connections, belt lines and terminal rearrangements, notwithstanding which, the property falls considerably short of having

a proper location of main lines in relation to branch lines and of terminals in relation to its traffic pattern which would have been secured had the property been designed and constructed as an entity."

Q. What can you say to the figure of \$40 million which is there mentioned, Mr. Cooper?

A. That is a figure that Mr. Fairweather will deal with. I know that the railway did spend considerable amounts for projects of this nature. Obviously when four railway systems are joined together connections have to be made, joint terminals rearranged, motive power and car repair facilities made suitable for operations. May I direct the attention of the Commission to what is said regarding this subject at pages 20 and 21 of the main brief. From what is said there, there seems little doubt the figure of \$40 million is a conservative estimate.

THE CHAIRMAN: Q. Is what?

A. Is a conservative estimate; but Mr. Fairweather is going to deal with it at greater length. No doubt he will also deal with the figure of \$8 million referred to in the same section of the submission.

MR O'DONNELL: That \$8 million figure appears on the next page, page 10, my lord.

THE CHAIRMAN: Pardon me. You referred to this as page 21, if I understood you.

MR O'DONNELL: Of the main brief, yes, 20 and 21. I think it might be well to put on the record here the short extract to which Mr. Cooper refers. It begins at the bottom of page 20, and it reads:

"To co-ordinate the four separate and in some respects competing railways into one unified system necessitated large expenditures, both on capital and revenue account. The work comprised the building of

connecting lines and cut-offs to permit a more economical routing of traffic, and joint use of terminals, stations, offices and other facilities. Grade reductions were undertaken, terminals were enlarged and modernized, some sections of the railway were double-tracked, heavier rail laid, bridges, trestles and culverts strengthened or replaced with permanent work. Much ballasting had to be undertaken and a start was made on the use of treated ties. Additional rolling stock was acquired and in addition many units were rebuilt, reinforced and improved. Much of the work had been done during the period of Government control but much still remained to be done. On a railway with 21,850 road or first main track miles in operation, employing well over 100,000 people, owning thousands of locomotives, freight cars and passenger cars, it is understandable that large sums of money were involved."

THE CHAIRMAN: Now, that explains the \$40 million.

MR O'DONNELL: Yes, my lord.

THE CHAIRMAN: It goes on to say that there are still requirements not yet met.

MR O'DONNELL: That is right.

THE CHAIRMAN: Are they estimated anywhere by anybody?

MR O'DONNELL: I do not think that I have an estimate as to that, my lord, no. We are describing a situation as it was at the time of amalgamation.

THE CHAIRMAN: But you go on to say that, notwithstanding---

MR O'DONNELL: Much remains to be done.

THE CHAIRMAN: You are still not properly equipped.

MR O'DONNELL: That is right; and much work re-

mained to be done.

THE WITNESS: Mr. O'Donnell, this is a statement which appeared in the 1923 report, and when it said that much remained to be done, it meant much remained to be done in 1923.

THE CHAIRMAN: Q. Oh, in 1923?

A. Yes.

THE CHAIRMAN: As far back as that.

MR O'DONNELL: I notice at page 21 of the---

THE CHAIRMAN: Well, that changes the question.

MR O'DONNELL: Yes, my lord.

Q. I notice that at page 21 of the brief, Mr. Cooper, reference is made to the period of Government control; would you, just for the convenience of the Commission, clarify that period, state what it was?

THE CHAIRMAN: Then we must take it for granted, that there must have been some expenditure made since then.

MR O'DONNELL: Oh, yes.

THE CHAIRMAN: Which adds considerably to the \$40 million.

MR O'DONNELL: That is right. You will note, my lord, that at page 41 of the brief the entire expenditure for the period from 1923 right through to 1947 is set out in those different columns.

THE CHAIRMAN: All right; they are to be found there.

MR O'DONNELL: Yes; the first period being 1923 to 1931, then 1932 to 1947, and then the entire period 1923 to 1947.

Q. Just going back to page 21 again, Mr. Cooper, would you be good enough just to clarify what the period of Government control is that is mentioned there? That is the period before the railways were put into the Canadian

National System as such, is it not?

A. It is the period between the date the Government took control of the Canadian Northern, the Grand Trunk Pacific and the Grand Trunk, and 1923.

Q. Now, you have spoken of the Grand Trunk, the Canadian Northern, the Grand Trunk Pacific, and likewise of the Canadian Government Railways in part. Now, what about the Canadian Government Railways, with respect to which the statement of Mr. Gordon made this morning makes reference at page 10 to the \$110 million which had been expended, which the statement says had been expended, by the Canadian National for additions and betterments to and for rolling stock required by that section of the system? The statement also says that prior to the formation of the Canadian National System and the entrustment to it of the Canadian Government Railways, capital for these lines was provided by the Government free of interest. What has the situation been since amalgamation, and what view have you with respect to the change?

THE CHAIRMAN: The paragraph goes on to describe the change, does it not?

MR O'DONNELL: Yes, in part.

THE WITNESS: I wish now to file an exhibit which shows the expenditures by Canadian National on the ^{Canadian} Government Railways since amalgamation in 1923.

MR O'DONNELL: That exhibit may be produced, I take it, my lord, as Exhibit 221. It is entitled "Canadian Government Railways".

--EXHIBIT 221: Statement entitled "Canadian Government Railways".

THE CHAIRMAN: Just so that we may be clear on this, when you talk of Canadian Government Railways, that includes the Intercolonial Railway and the extensions of it?

MR O'DONNELL: The Intercolonial, the National

Transcontinental, the Prince Edward Island Railway, and a number of other small lines of that kind.

THE CHAIRMAN: They are all in eastern Canada?

MR O'DONNELL: I do not think all are.

Q. Could you just say, Mr. Cooper?

A. Most of them are, but the National Transcontinental runs right through to Winnipeg.

THE CHAIRMAN: Q. Yes; you include that?

A. Yes, sir.

MR O'DONNELL: Your lordship will remember that a number of them are listed in the Duff Report and various other places.

THE CHAIRMAN: Yes.

MR O'DONNELL: Q. Then, Mr. Cooper, will you just go ahead and explain Exhibit 221, which shows the capital expenditure on the Canadian Government Railways since entrustment, as I understand it?

A. The first item shows additions and betterments financed by Canadian National Railways in the period 1923 to 1948, amounting to \$28,543,105. The fourth item shows the amount of rolling stock provided by Canadian National for Canadian Government Railways in this period, amounting to \$80,749,534. Those two items together make the \$110 million referred to in the President's statement, paragraph 4, at page 10.

MR O'DONNELL: That explains the figure of \$110 million.

THE CHAIRMAN: Where is that figure found?

MR O'DONNELL: Page 10, my lord, at the bottom, of Mr. Gordon's statement this morning.

THE CHAIRMAN: I have it here, yes.

THE WITNESS: We take the position that we should not have been required to pay interest on the money spent on

capital account for the Crown-owned railways. Prior to 1923 the Government railways never paid interest on its invested capital. The railways were owned by the Crown, they were operated as a department of the Government and Government practice did not allocate the interest on the public debt to the various departments of Government. For example, interest is not charged against the Department of National Defence on the cost of ships in Naval Service or the aircraft used by the Air Force or the guns and other equipment needed by the Army. No interest is charged against Public Works Department on the cost of Government-owned buildings, including the one in which we are now sitting. The Post Office Department does not pay interest on the cost of all the post offices scattered throughout the country; and so on. Nor was it the practice to charge the Transport Department interest on the money invested in the Intercolonial Railway, the National Transcontinental Railway, the Quebec Bridge, and things of that sort. In 1923 these Government railways were entrusted for management and operation to the Canadian National. The Canadian National is only an agent of the Government for the management of the railway. The ownership of the railway did not change. Why entrusting the management to an agent should make the agent responsible for interest which had never been charged when the Government itself operated the railway, I have never been able to understand. The fact is that for several years after entrustment we objected to any interest charge and refused to accept such charge even though it was debited to us by the Government. What happened, however, is something like this, and you will have to take my word for it because I do not think the arrangement was ever written out. Under the Maritime Freight Rates Act, section 6,

there is the direction that the accounts for the Eastern Lines shall be kept separately from the accounts of the Canadian National and that any deficit on the Eastern Lines would be voted by Parliament separately from the vote for the Canadian National itself. In consideration for the relief to Canadian National which this arrangement afforded -- that is, in having the deficit of the Eastern Lines taken out of the system figures -- Sir Henry Thornton agreed to finance future capital expenditures on the

Canadian Government Railways. However, because of the recommendation in the Duff Report, paragraph 48, pages 17-18, and because of the views expressed by the members of the Parliamentary Committee on Canadian National affairs, the accounts for Eastern Lines were reinstated in the Accounts of the Railway System, but the quid pro quo, that is, the interest relief, which the railway enjoyed before the separation was made, was not restored, and the Canadian National was left responsible for interest on capital expenditures on Canadian Government Railways.

THE CHAIRMAN: Q. When was this section 6 departed from? I understood you to say, notwithstanding this, there was a merger of the accounts again. Is that what you said?

A. Yes, sir.

THE CHAIRMAN: When was that?

(Page 18503 follows)

MR. O'DONNELL: For the convenience of your lordship and that of the Commission, I think I should read into the record Section No. 6 of the Maritime Freight Rates Act:-

6."For accounting purposes, but without affecting the management and operation of any of the Eastern lines, the revenues and expenses of the Eastern lines, including the reductions herein authorized which shall be borne by the Eastern lines, shall be kept separately from all other accounts respecting the construction, operation or management of the Canadian National Railways.

2. In the event of any deficit occurring in any Railway fiscal year in respect of the Eastern lines the amount of such deficit shall be included in a separate item in the estimates submitted to Parliament for or on behalf of the Canadian National Railways at the first session of Parliament following the close of such fiscal year."

THE CHAIRMAN: How long was that Section adhered to?

THE WITNESS: The accounts for the Eastern lines were taken out in July 1927, and were put back in 1932, and they were put back, sir, as the result of recommendations contained on pages 17 and 18 of the Duff Report.

MR. O'DONNELL: I think we might record here, Mr. Cooper, the paragraph you refer to.

THE WITNESS: The report says on page 17, paragraph 48:-

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"48. In our analysis of the Canadian National Railway accounts it has been necessary to recast the operating figures since 1927 to include the Eastern Lines with the System figures.

The Maritime Freight Rates Act of 1927, as applied to the Canadian National Railways accounts, results in the exclusion of all operations of the company east of Levis from the System figures and the production of a separate operating return.

No good purpose is served by such a division in the accounts, and a great deal of confusion arises through the present method of presenting two separate deficits.

This commission is of the opinion that the Maritime Freight Rates Act should be applied to the Canadian National Railways in a similar manner to that of other railways within the territory described in the Act, and that steps should be taken to provide for the inclusion of Canadian National Eastern Lines operating accounts as part of the System accounts, so that the Canadian National Income Deficit shall be all-inclusive."

THE CHAIRMAN: What page is that on?

MR. O'DONNELL: Pages 17 and 18 of the Duff Report, paragraph 48.

THE CHAIRMAN: The Section was never changed nor repealed?

MR. O'DONNELL: Q. But the practice now, Mr. Cooper, is that the Eastern Lines figures are merged in the System figures?

A. They are merged in our System operating results, but in the Parliamentary appropriation there is a separation made between the lines comprising the Eastern Lines and the remainder of the System, and I would like to express - -

THE CHAIRMAN: I just want to know shortly, is Section 6 now a dead letter, or is it still operative?

A. It is a dead letter so far as the publication in System operating results is concerned, but it is not a dead letter in the way the deficit is voted in the Parliamentary votes. I was going to say, sir, that one of the things that I hope will emerge from the deliberations of your Commission will be that Section 6 shall be repealed. It serves no purpose, it is just a nuisance.

I calculate these capital expenditures on Canadian Government Railways on which Canadian National is now paying interest amount to \$109,292,637. This amount of approximately \$110,000,000 is exclusive of lines acquired and new lines constructed in Canadian Government Railway territory, both of which matters are dealt with under Sections 5 and 6 of the Submission.

It is our view, it has always been our view, that Canadian National should not have been burdened with interest on Canadian Government Railways capital expenditures. That is to say, the policy of the Government since confederation, should not have been changed merely because the railways were entrusted to the Canadian National for management.

MR. O'DONNELL: Q. And that is what Mr. Gordon's statement refers to when he says on page 10 under the sub-heading Canadian Government Railways:-

"During the years of administration by Canadian National a change was made and the System has since been burdened with interest-bearing capital for additions and betterments and for rolling stock, which at the present time has accumulated to some \$110,000,000."

A. Yes.

THE CHAIRMAN: We are about to adjourn, Before we do so, I want to make sure we are not making any mistake in regard to this figure you have just quoted. You refer to Exhibit 221 and at the foot of Exhibit 221, you said you would find there this \$110,000,000.

MR. O'DONNELL: Q. Will you explain how this \$110,000,000 is made up?

A. It is the addition of the first figure and the fourth figure.

Q. That \$110,000,000 is in round numbers, the first figure is \$28,543,105 added to \$80,749,534?

THE CHAIRMAN: Yes, I see.

MR. O'DONNELL: Before we adjourn I would like to read from page 20 of the main Brief:-

"In all about \$140 millions has been expended by the Railway Company for account of Canadian Government Railways' property investment, and it is estimated this has added \$4,746,000 to the fixed charges of the System"
I understand you would like to adjourn now, my lord?

THE CHAIRMAN: Yes, we will adjourn.

---At 4.10 p.m. the Commission adjourned to meet again at 10.30 a.m. on Monday, March 20, 1950.

A.R.

Canada
ROYAL COMMISSION
ON
TRANSPORTATION

EVIDENCE HEARD ON

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Please make the following changes in the Transcript

<u>Vol.</u>	<u>Page</u>	<u>Line</u>	<u>Correction</u>
98	18463	1	Insert word "four" after word "seven"
	18474	15	Should be \$12,000,000 instead of \$17,000,000

ROYAL COMMISSION ON TRANSPORTATION

Monday, March 20th,
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ROYAL COMMISSION ON TRANSPORTATION

OTTAWA, ONTARIO
MONDAY
MARCH 20, 1950.

THE HONOURABLE W.F.A. TURGEON, K.C., LL.D.	-	CHAIRMAN
HAROLD ADAMS INNIS	-	COMMISSIONER
HENRY FORBES ANGUS	-	COMMISSIONER

G.R. Hunter
Secretary

P.L. Belcourt
Asst. Secretary

COUNSEL APPEARING:-

F.M. Covert, K.C.	}	Royal Commission on Transportation
G.C. Desmarais, K.C.		
H.E. O'Donnell, K.C.	}	Canadian National Railways
H.C. Friel, K.C.		
N.J. MacMillan		
C.F.H. Carson, K.C.	}	Canadian Pacific Railway
F.C.S. Evans, K.C.		
I.D. Sinclair		
C.D. Shepard	)	Province of Manitoba
M.A. MacPherson, K.C.	}	Province of Saskatchewan
F.C. Cronkite, K.C.		
J.J. Frawley, K.C.	)	Province of Alberta
F.D. Smith, K.C.	}	Province of Nova Scotia; Transportation Commission of the Maritime Board of Trade.
J. Paul Barry	)	Province of New Brunswick
C.W. Brazier	)	Province of British Columbia
J.O.C. Campbell, K.C.	}	Province of Prince Edward Island

OTTAWA, ONTARIO,
MONDAY, MARCH 20, 1950.

MORNING SESSION

T. H. COOPER RECALLED

EXAMINATION CONTINUED BY MR. O'DONNELL.

THE CHAIRMAN: All right, Mr. O'Donnell.

MR. O'DONNELL: May it please the Commission, on Friday we had been reviewing some of the statements which are found in the submission which was made by Mr. Gordon in opening the case for the Canadian National Railways. As you will remember, he had said that the excessive capital burden upon the Canadian National Railways system, according to his computation, was \$1,533 million. The details of that appear at page 14 of the statement. I had gone on with Mr. Cooper to review certain of the details in that total sum or \$1,533 million. I think we had just reached the point at which we were discussing the situation as to the Canadian government railways.

THE CHAIRMAN: Would you give me the reference to the page?

MR. O'DONNELL: It will be page 10 of Mr. Gordon's statement. We had just reached the point where we were dealing with Canadian government railways, and I think Mr. Gordon had just told the Commission that during the years of administration by the Canadian National a change had been made and the system had since been burdened with interest bearing capital for additions and betterments and for rolling stock, which at the present time has accumulated to some \$110 million. I was going on now to direct Mr. Cooper's attention to the next statement in that sub-heading where Mr. Gordon said and I quote:

TO THE
HONORABLE

THE SECRETARY

OF THE

NAVY DEPARTMENT

WASHINGTON, D. C.

SIR,

I have the honor to acknowledge the receipt of your letter of the 10th inst.

and in reply to inform you that the same has been forwarded to the proper authorities.

Very respectfully,
Your obedient servant,

J. D. [Signature]

Enclosed for the Bureau are two copies of the report of the

Commissioner of the General Land Office, dated at Washington, D. C.,

the 10th inst., in relation to the proposed extension of the

boundary of the National Park, as shown on the map

enclosed herewith, and also a copy of the report of the

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enclosed herewith, and also a copy of the report of the

Commissioner of the General Land Office, dated at Washington, D. C.,

"There is a pension fund, closed to new members in 1929, which is applicable to the Canadian Government Railways. This fund is more expensive to support than the general pension fund of the Canadian National to the extent of an equivalent capital amount of \$ 25 million."

Q. I would just ask you, Mr. Cooper, if you would be good enough to explain that statement, and why that pension fund is more expensive to the Canadian National than the general pension fund?

A. The pensions paid under the I.C.R. pension fund are more generous than those paid under the main Canadian National pension plan. The two plans are different in many ways and it is difficult to make a complete comparison.

Q. Will you speak louder, please?

A. Yes, I will try. It may be indicative if I say that under the Canadian National plan an employee who meets the service requirements and who has contributed five per cent of his wages since January 1, 1935, is assured of a pension equal to one per cent for each year of service of his annual earnings in the last ten years of service; whereas under the I.C.R. plan he would contribute one and a half per cent of his wages and receive a pension equal to one and a half per cent for each year of service of his average annual earnings in the last eight years of service.

The average monthly pension under the Canadian National plan, at the end of 1949, is \$45.40 whereas the average monthly pension being paid to retired Canadian Government Railway employees is \$84.61. An actuarial valuation of the I.C.R. and P.E.I. provident fund has been

"I am in a very difficult position to leave

because in 1907, when I was 10 years old, I

was taken to the United States and I have been

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made which shows that the liability of the fund for present and future pensions, to the extent that such pensions would be paid at the expense of the Canadian National, is \$59,600,000. It is estimated that the actuarial valuation of present and future pensions to this same group on a scale of the C.N.R. pension plan, to the extent such pensions would be paid at the expense of the Canadian National, would be \$33,200,000. The difference amounts to \$26,400,000. To be conservative, the estimate in the President's statement was placed at \$25,000,000.

Q. The next matter that the President's statement dealt with was the effect of acquisition of unremunerative lines in national interest. That is to be found at page 11 of the statement. It was set out there that the adverse effect of such acquisition on the net earnings position of the Canadian National Railways, insofar as the cost of acquisition is concerned, was \$15,855,361; and that the cost of rehabilitation had to be added thereto, making a total of \$18 million in round figures. Would you be good enough to explain that situation and verify those figures?

COMMISSIONER INNIS: What is the precise meaning of "national interest"?

MR. O'DONNELL: I take it that those are roads which are operated not necessarily as commercial ventures and which would have no hope of surviving as commercial ventures, but which the government decided should be operated notwithstanding the fact that they were a losing proposition.

COMMISSIONER INNIS: "In the national interest" means what the government says is in the national interest.

MR. O'DONNELL: I would assume that that is a fair enough way to look at the matter.

THE WITNESS: Our records show the cost of acquisition was, as stated, \$15,855,361; and if you include the cost of rehabilitation, the cost was \$17,766,799. Those figures are shown in Exhibit --

Q. They are in the Duff Report, are they not, Mr. Cooper?

A. They are in the Duff Report, and they are also shown in our Exhibit 221, which was filed on Friday. The costs are quoted in paragraph 60, on page 22 of the Duff Report, except that the rehabilitation costs that I have just given were compiled a little later than those appearing here.

THE CHAIRMAN: What Exhibit was referred to?

MR. O'DONNELL: Exhibit 221, my lord.

THE WITNESS: The figures that I have just quoted were compiled a little later than those that were set out in the Duff Report.

COMMISSIONER ANGUS: Q. What were the dates of acquisition?

A. They are around 1929.

MR. O'DONNELL: The dates are set out in the Duff Report, at page 22, paragraph 60.

THE CHAIRMAN: They were different ones?

MR. O'DONNELL: They were different dates. I might read paragraph 60, as it is a short one. It is headed:

"Acquisition of Branch Lines By Purchase"
and reads as follows:

"In 1914, the government acquired the New Brunswick and Prince Edward Island Railway. This railway was necessary to provide a connection for the Prince Edward Island train ferry.

THE WITNESS: One of the witnesses

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"In 1916, the Quebec and Saguenay Railway was added to the Government Railways. Between 1918 and 1920 nine other short railways were acquired by the Government, making altogether an addition of eleven short railways to the Government railways. In 1929, a further six short railways in Eastern Canada were taken over by the Canadian National Railways. The total cost of these railways including the amounts spent on betterments and improvements amounts to approximately \$35 million."

THE CHAIRMAN: You have not named any of those railways.

MR. O'DONNELL: They are all set out on that page of this Report that I am referring to, page 22, under the heading "Railways Taken over by The Canadian National Railways." Listed there we find the Inverness Railway; the Kent Northern; the Gaspé Lines; the St. John and Quebec Railway; the Quebec, Montreal and Southern, and one other.

THE CHAIRMAN: The only point is as to the respective dates, if you had them there.

THE WITNESS: Those five railways were all taken over in 1929.

MR. O'DONNELL: Q. The cost of those railways is set out in Exhibit 221, is it not, Mr. Cooper?

A. Yes, in Exhibit 221. Then I might refer to paragraph 61 on page 23.

COMMISSIONER ANGUS: Q. Was the rehabilitation cost included in the investment figures you gave us the other day that amounted to \$707 million?

A. Yes.

Q. It was included in that?

A. Yes. The cost of these lines, including

rehabilitation, amounted to \$17,766,799; and it is all included in that figure of \$707 million.

Q. As to the \$100 million that you thought should be allowed off that for rehabilitation, did that or did it not include these things?

A. No; it is in addition to those, what we are now speaking of.

THE CHAIRMAN: Q. Would you clear up one thing for me. You say that the rates for transportation service had to be reduced. Just tell us about that.

MR. O'DONNELL: Mr. Fairweather will explain that point. I think Mr. Cooper can do so, but Mr. Fairweather will explain what is meant by that.

THE WITNESS: What was the question?

MR. O'DONNELL: His lordship asked if you would explain why the rates had to be reduced upon taking over the railways by the Canadian National.

THE WITNESS: I think Mr. Fairweather could explain that better than I could.

THE CHAIRMAN: All right.

THE WITNESS: But if I may, I should like to refer for a moment to the question that was asked about the national interest.

THE CHAIRMAN: Q. Will you speak a little more loudly, Mr. Cooper. Not only must we hear you, but there are counsel a scattered all over the room who must be able to follow you.

A. All right, my lord.

At page 23 of the Duff Report, right at the top of the page, the Commission speaking of the taking over of these five railways, said:

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". . .but the Commission believes that it would have been better had the government assumed this burden directly and thus avoided saddling the railways with capital charges and operating expenses resulting from the purchase of railways based solely on a public policy."

MR. O'DONNELL: Q. In that same paragraph of Mr. Gordon's statement, Mr. Cooper, appears the following statement:

"Incorporation of these lines --"

That is, these various lines taken over by the Canadian National.

" -- in the system increased operating expenses applicable to each by reason of the obligation to pay wages at system levels and to assume pension liabilities, while on the other hand, rates for transportation service had to be reduced. The effect of these changes was decidedly adverse to the net income of the system and constitutes another example of what has been termed negative capital. It is appropriate therefore to set up negative capital of \$12 million which, added to the cost of acquisition and of rehabilitation totals \$30 million."

Would you please explain that \$12 million figure to the Commission?

A. I think the figure of \$12 million is quite conservative. We do not now keep the earnings of these railways separately, but we did so for a number of years subsequent to their acquisition.

We have a record from 1929 to 1939 but we stopped compiling the figures after 1939 because of the war, because we had more important things to do. But I have a statement showing that in the eleven-year period the gross revenues for these five railways amounted to \$7,177,710 whereas their operating expenses were \$17,171,580, a net revenue deficiency of \$9,993,870. Those figures are exclusive of rent of equipment, et cetera. The figure of \$9,993,870 averages \$908,533 per annum which, capitalized at three per cent, exceeds \$30 million as compared with the figure of \$12 million used in the submission.

Q. That is why you said that in your view the \$12 million was an understatement?

A. Yes.

Q. I understand you have an Exhibit which sets out the revenue deficiency of \$9,993,870 that you referred to. I would ask you to be good enough to produce that as an Exhibit.

MR. COVERT: It will be Exhibit 222.

<u>EXHIBIT NO. 222:</u>	Filed by Mr. O'Donnell:	Statement showing net revenue from operations, 1929-1939 -- lines acquired by Canadian National Railways.
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(Page 18516 follows)

Q. Would you be good enough to explain briefly Exhibit 222?

A. There is a summary sheet which shows the five railways.

Q. Just for the purpose of the record, that Exhibit is entitled "Lines Acquired by Canadian National Railways, Net Revenue from Railway Operations, 1929-1939."

A. Yes.

Q. And consists of six sheets.

A. Yes, there is a summary sheet on the front which shows the gross revenues which I called out a few minutes ago amounting to \$7,177,000, the operating expenses of \$17,171,000, and the net revenue deficiency of \$9,993,000. That is for the eleven year period, and if you average that out it comes to \$908,533 per annum, and that of course, capitalized at 3%, exceeds \$30 million. The supporting sheets are for each of the five different railways. For instance, the second sheet showing the Gaspé Railways; shows each year what the revenues were and what the expenses were and what the net revenue was.

Q. And ^{on} all these supporting sheets the actual date of acquisition of each road is set out at the head of the sheet?

A. Yes.

Q. That is the Gaspé Lines acquired June 1, 1929; Kent Northern Railway, September 1, 1929; Quebec, Montreal and Southern, July 16, 1929; Inverness Rail & Coal Co. August 8, 1929; St. John & Quebec Railway, September 1, 1929?

A. That is right.

COMMISSIONER INNIS: No explanation of why

the national interest suddenly became acute in 1929?

MR. O'DONNELL: I haven't off-hand any reason for that, Dr. Innis. Apparently the Government determined to acquire them at that date. The national interest was fixed as of that date, presumably with respect to these matters at least. Now, the next item I would like to direct your attention to, Mr. Cooper, on Mr. Gordon's statement, appears at page 12, where he made a statement concerning the Newfoundland Railway and Steamship Services. I quote the part that I would direct your attention to:-

"It is anticipated that the operations of the Newfoundland Railway and Steamship Services will burden the System income account to the extent of \$4 million yearly. Expressed in terms of negative capital this amounts to \$134 million."

Would you be good enough to give your views to the Commission concerning that figure?

A. The figure of \$4 million is of course a forecast. We only took the railway over on April 1, 1949, so that we have only nine months figures in our accounts so far. For the nine months ended December 31, 1949, the deficit was \$2,681,210. As these figures exclude the worst three months of the year and are exclusive of interest on the considerable capital expenditures which I understand will be necessary, I should think the figure of \$4 million is reasonable and can be supported. Our 1950 Budget, which will be submitted to Parliament this week, anticipates a loss on these lines of \$4,252,589.

Q. That is the year 1950?

A. Yes, sir.

Q. And this figure of \$4 million which Mr. Gordon's statement sets forth is the prospective annual deficit which is anticipated may result by reason of the taking over of the Newfoundland Railway and Steamship Services by the Canadian National?

A. Yes, it is stated conservatively too.

Q. Now, the next item of Mr. Gordon's statement which I would like to direct your attention to appears at the top of page 13, where it is said, speaking of the Temiscouata Railway:-

"The operation of the Temiscouata Railway will constitute an additional burden on the Canadian National and will adversely affect its annual income to the extent of \$180,000, the equivalent of \$6 million in terms of negative capital."

What can you tell the Commission with respect to that?

THE CHAIRMAN: When did that acquisition take place?

MR. O'DONNELL: Q. On April 1, wasn't it, the acquisition of the Temiscouata Railway?

A. No, this railway was acquired by the Government on December 10, 1949, upon ratification by Parliament of the Act, Chapter 39 of the Second Session of 1949. The Order-in-Council P.C. 635, dated February 10, 1950, stipulates January 1, 1950 as the date of entrustment to Canadian National. Consequently there is nothing in our 1949 accounts for this railway, and the estimated annual deficit or adverse effect on Canadian National net income of \$180,000, is a figure computed by Mr. Fairweather and

no doubt he will explain it.

Q. Now, going to the next branch of the statement of the President, still on page 13, under the heading "Effect of Development Lines".

COMMISSIONER INNIS: What is the origin of this phrase "negative capital"?

A. What is the origin of it?

Q. Yes.

A. I think we would have to credit that to Mr. Fairweather.

Q. It is a term developed by the Canadian National Railways, is it?

A. Yes, it is.

MR. O'DONNELL: It is defined more or less in the opening statement, made in the sense in which it is being used.

A. I would describe it as the annual deficit expressed as a capital sum.

Q. It is a convenient way of describing a rather cumbersome idea possibly, and it was termed as that?

A. It is a minus quantity, it is a red ink figure.

COMMISSIONER ANGUS: Was the Canadian National management consulted about the price that the Government paid for this negative capital or for parts of it?

A. Yes, again I think Mr. Fairweather would be the witness that should speak to that.

MR. O'DONNELL: And that is the price at which the railways were taken over.

COMMISSIONER ANGUS: Yes.

MR. O'DONNELL: I think Mr. Fairweather could give you that information, Dr. Angus. Now then, coming,

Mr. Cooper to that matter that I referred you to, the \$85 million which had been expended by the Canadian National with respect to the development of branch lines?

A. Yes.

Q. The whole cost of that has been divided by the issue of interest-bearing obligations which are a burden which is borne by the Canadian National. What have you to say as to that? Can you verify that \$85 million figure from your accounts?

A. Yes, on page 41.

THE CHAIRMAN: You don't give us any instance of what you consider to be a development of branch lines?

MR. O'DONNELL: Not in that particular place, my lord, but we will.

THE CHAIRMAN: You have a list of them, have you?

MR. O'DONNELL: Q. Have you got - -

A. Yes, we have a list, we will file it.

MR. O'DONNELL: Yes, we will have that, my lord.

THE WITNESS: On page 41 of Exhibit 214, you will see the first item shows new lines constructed in the period 1923-1947 to be \$83,754,321. We spent in the period 1923-1947 \$83,754,321 in constructing new lines of railway. In 1948, we spent \$1,414,549 in the construction of the Barraute branch line.

THE CHAIRMAN: What is that?

A. The Barraute branch, it is a line running north of the National Transcontinental Railway, a few miles west of Senneterre. It was authorized by Chapter 41 of the 1946 Statutes.

MR. O'DONNELL: The reference to that will be found in Exhibit 217, the Annual Report, at page 20, won't it?

A. Yes.

THE CHAIRMAN: What is that?

MR. O'DONNELL: The reference to that will be found, I think, at page 20 in the Annual Report for 1948, new lines constructed, the first item at the top of the page, \$1,414,549.18.

THE WITNESS: If you add the 1948 expenditure to the figures given in Table No. 5 at page 41, you arrive at the figure of \$85 million.

COMMISSIONER ANGUS: When you say that the capital burden is excessive, would not the equity capital have been a capital burden in one sense?

A. I don't think so, Mr. Commissioner. It does not impose a fixed charge on us.

MR. O'DONNELL: You are speaking of the fixed charge aspect of the matter?

COMMISSIONER ANGUS: You have the equity capital burden and fixed charges?

A. The capital burden meant is capital debt burden.

MR. O'DONNELL: Interest-bearing debt?

A. Yes.

Q. What you are referring to there especially.

COMMISSIONER ANGUS: I mean, if a private railway had built these lines, it would have perhaps advanced as to 40% by fixed charges, but it would have expected a return on the whole investment?

MR. O'DONNELL: Sure.

THE WITNESS: I cannot imagine a private railway building 85 miles of branch lines in this period, not of the type these branch lines are.

COMMISSIONER ANGUS: In that case you might

claim for the whole \$85 million?

MR. O'DONNELL: That is why we say we are very conservative in claiming for what we have claimed. Now, speaking again of that same subject, Mr. Cooper, do you think in your view that it is reasonable or is a general proposition that 40% of the capital expended in the development of branch lines should take the form of equity capital?

A. Yes, at least 40%.

Q. Why?

A. Well, unquestionably the percentage of new financing to be represented by equity capital should be greater than 40%. At Table 8 on page 49 of Exhibit 214, we show the percentage of capitalization represented by equity capital for the United States railways. In 1947 the percentage was 45.8. That is to say, of the United States railways 45.8% of their capital is in the form of equity capital. I have a figure for the Canadian Pacific Railway that is shown on page 50 of Exhibit 214.

Q. Top of the page, isn't it?

A. According to our calculations, for the year 194⁵~~2~~ the percentage of Canadian Pacific capital in the form of equity capital was 54.8%.

Q. That is the figure in the Table at the lower part of the page under the heading "C.P.R.", and it is- -

A. The percentage, 2 to 4.

Q. Of Item 2 to Item 4, and it is 54.8?

A. Item 2 being equity capital and Item 4 being total capital.

COMMISSIONER ANGUS: Are we comparing like with like? I mean, the equity capital of a private railway is not something on which it expects to earn no return at all.

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It is something on which it expects to receive a higher return than on its fixed charge capital.

A. We were just trying to show, Mr. Commissioner, that 40% is a very low proportion of total capital which should go into its branch line construction.

MR. O'DONNELL: While we are on this page 50, my lord and members of the Commission, there is a figure that should be corrected in the middle of the page. It is the seventh line in the second paragraph. The figure 55.3% should be changed to - -

A. 58.1.

MR. SMITH: Is that a change on page 50 of your Brief?

MR. O'DONNELL: Page 50.

MR. FRAWLEY: Has 55.3 been changed?

MR. O'DONNELL: Yes, to 58.1.

MR. SMITH: That is the second to last figure in the last column of page 50?

MR. O'DONNELL: Yes, it is the same figure.

THE WITNESS: What happened, we copied the wrong figure there, Mr. Smith. We put the figure in, 55.3, which is immediately above the figure of 58.1, we carried the 55.3 into the narrative and we should have carried 58.1 into the narrative.

MR O'DONNELL: Q. Now, can you tell the Commission how much was spent on branch lines in connection with Canadian Government Railways?

A. Well, included in that \$85 million is \$12,910,547, which was spent on branch lines which connect with the Canadian Government Railways, and according to my contention should have been interest-free capital.

Q. And the details of that \$12,910,547 will be found on Exhibit 221?

A. Exhibit 221, yes.

Q. Where you set out in detail the branch lines constructed by Canadian National Railway Company for the account of Canadian Government Railways which are operated as part of the Canadian Government Railways?

A. Yes.

Q. The Lake Verde Railway, the Sunny Brae Branch, Senneterre-Noranda and National Transcontinental Branch Lines, Taschereau to Rouyn and Noranda lines, with spur lines to Waite-Montgomery lines, and so on, and then ~~Barrute~~ ^{Barrute} to Kiask Falls, which you referred to earlier?

A. Yes.

Q. The whole making a total of \$12,910,547?

A. Yes.

Q. Now, Mr. Cooper, just by way of summarizing what you said, going through what you have said generally, referring to the amount of \$80.4 million of obligations of insolvent railways which you mentioned, and of the \$100 million expended due to run-down and semi-finished condition of properties taken over at amalgamation, and the \$40 million for co-ordinating costs, would you give the Commission such information as you can as to the situation generally as it existed in 1923, at the time these things happened?

A. It is not very easy to carry your mind back nearly

thirty years and speak with precision as to the situation then existing. At that time I was a general officer of the Railway; I was Assistant to the Vice-President of Finance; I had taken part in the negotiations leading to the acquisition of the Grand Trunk by the Government; I also furnished accounting information during the Grand Trunk Arbitration proceedings; so that perhaps I have as good a knowledge as anyone of the financial affairs of the system at that time. There is no shadow of doubt in my mind of the fact that the Canadian National System as it was put together in 1923 was a collection of bankrupt or insolvent railways for which it was necessary to spend very considerable amounts to weld them into a unified transcontinental system and into a physical condition to meet the need of the country for dependable rail transport. As to whether the railways were insolvent or not, I would like to deal with the railways separately. Mr. Fairweather and I were witnesses in the action brought by Lovibond against the Grand Trunk and Canadian National Railway Companies before The Honourable Mr. Justice Jeffrey in the Supreme Court of Ontario, decided in September 1938.

MR O'DONNELL: Mr. Cooper, before you go further on that subject, would you be good enough to produce as Exhibit 223 a copy of the judgment to which you have just referred of Mr. Justice Jeffrey in the action decided on September 24, 1938. In that connection would you be good enough also to produce the three exhibits which were filed in that action as Exhibits 24, 25 and 26. Exhibit 24 in that case will be Exhibit 223-A, Exhibit 25 in that case will be Exhibit 223-B, and Exhibit 26 in that case will be Exhibit 223-C.

---EXHIBIT 223: Copy of judgment of The Hon. Mr. Justice Jeffrey of Supreme Court of Ontario in Lovibond v. Grand Trunk et al, decided Sept. 24, 1938.

---EXHIBIT 223-A: Exhibit 24 in Lovibond v. Grand Trunk et al.

---EXHIBIT 223-B: Exhibit 25 in Lovibond v. Grand Trunk et al.

---EXHIBIT 223-C: Exhibit 26 in Lovibond v. Grand Trunk et al.

MR O'DONNELL: Q. Now, Mr. Cooper, will you go on to make such comment as you wish concerning the judgment of Mr. Justice Jeffrey? I understand that that relates particularly to the situation in so far as it concerned the Grand Trunk as at the date of which we have been speaking?

A. Yes. I gave evidence regarding the financial situation confronting the Grand Trunk and Grand Trunk Pacific at the time of the Grand Trunk's acquisition by the Government. I prepared three exhibits which were marked 24, 25 and 26 and which were offered in evidence. Exhibit No. 24 showed that during the period 1916 to 1922 the deficit of the Grand Trunk before dividends on the preferred and common stocks was \$65,735,333.

Q. And that is the figure, is it not, which appears on the first page of Exhibit 223-A?

A. Yes.

Q. Which has just been filed. A series of red figures at the bottom of the page, the total figure in red being \$65,735,333.

COMMISSIONER INNIS: Q. This has nothing to do with the Grand Trunk Pacific?

A. No, sir. It also showed that at December 31, 1919, the company was facing heavy maturing obligations of which \$60 million fell due in 1920 and \$31 million in 1921. In addition there was the need to provide the funds for capital

expenditures, which in 1920 were \$3,994,345 and in 1921 \$24,765,040. In 1922 the capital expenditures were \$3,167,549.

MR O'DONNELL: Q. Those details likewise appear on the first page of Exhibit 223-A?

A. Yes.

COMMISSIONER INNIS: Q. What was the situation before 1916? A series of surpluses or---

A. Of course, they never paid any dividends on their common stock. They were paying a dividend on the guaranteed stock, and I think they paid a dividend on the first preference stock fairly consistently for about twenty years prior to World War No.1.

Q. So that the war was really responsible for this change from a reasonable position to an unreasonable one?

A. Well, it was the combination of the war, sir, plus their commitments on the Grand Trunk Pacific.

Q. That is what I was wondering, how far the commitments on the Grand Trunk Pacific were an element in this?

A. Well, that is analyzed in the exhibit, Mr. Commissioner.

MR O'DONNELL: Q. These exhibits give all the supporting statements and data concerning the actual situation of the company at the time as referred to by you in your evidence?

A. Yes. Exhibit 24 also showed that the company's assets from which it could realize cash to meet its financial requirements were negligible. Exhibit No.25 showed the position of the Grand Trunk Pacific Railway System.

Q. That is Exhibit No. 223-B in the present record?

A. Yes.

Q. And that showed the Grand Trunk Pacific Railway System situation.

A. Exhibits A and B in that Exhibit No.25 showed that the profit and loss result for the seven years ending 1922 was a loss of \$83,951,049.

Q. That is on the second sheet, the bottom of the second sheet, is it not, of Exhibit 223-B?

A. Yes.

Q. The last figure on the lower right-hand column.

A. The Honourable Judge in his judgment declared---

Q. You are now referring to page 6 of Exhibit 223, at the bottom of the page?

A. I was referring to page 9, Mr. O'Donnell, first.

Q. Well, take page 9 first.

A. He said:

"I have come to the conclusion, having regard to all the evidence and particularly Exhibits 24, 25 and 26, that the Company was insolvent, that it was on the verge of bankruptcy and that so far as the junior shares are concerned - - - they were worthless."

He further stated -- and this is taken from page 6---

Q. Of the same exhibit.

A. "I accept without any reservation the statements made by the officers of the Canadian National Railways, Messrs. Fairweather and Cooper, and their evidence, and the facts disclosed in Exhibits 24, and 26 satisfies me that the Company at that time was hopelessly insolvent."

Q. I might just round off that quotation by adding the next sentence:

"It was stated, The Grand Trunk were in no condition to borrow further money; they were under heavy obligation to the Government and were hopelessly insolvent, and I find this to be the fact."

And at page 6, just two sentences before where Mr. Cooper began reading, we might add these words of the learned judge:

"I have considered the issue, and have come to the conclusion that this action must fail.

There is no doubt in my mind that the Grand Trunk Railway Company of Canada was in an insolvent condition and had been so for some years previous to the arbitration."

Q. Now, there was an appeal -- is there anything else you would like to say about those exhibits, Mr. Cooper?

A. I could say that that judgment was appealed to the Ontario Court of Appeal and the appeal was dismissed.

Q. But as to the exhibits themselves, is there anything else you would like to direct the Commission's attention to?

A. I do not think so.

Q. Or do they pretty well set out the details, which can be read by the accountants and others who are interested in looking at them?

A. Yes.

Q. You say there was an appeal from that judgment. I would ask you therefore to be good enough to produce as Exhibit 223-D a copy of the judgment of the Court of Appeal, rendered on the 24th of March, 1939, in the same case of Lovibond v. Grand Trunk Railway Company of Canada and Canadian National Railway Company. For the purpose of the record, at this point I might just read an extract from that judgment, my lord, which I think would be of assistance to the Commission. The extract to which I refer begins at page 15:

" The financial position of the company is to be judged from the evidence of Mr. Cooper, the comptroller

of the Canadian National Railway Company. The result of this examination disclosed as follows: During the period of 1916 to 1922 the deficit before declaring dividends on the preferred and common stocks was upwards of \$65,000,000. At December 31st, 1919, the company was facing heavy maturing obligations of which there was need to provide funds to meet capital expenditures; these in 1920 were about \$4,000,000 and 1921 \$25,000,000; 1922 \$3,000,000. The Company's assets from which it could realize cash to meet its financial requirements were negligible. See Evidence p. 333. Mr. Cooper prepared Exhibit 24 showing the financial position of the Company, and exhibited further statements Exhibit 25; these disclosed the fact that within the period of 1916 to 1922 the loss of the Grand Trunk Pacific amounted to \$84,000,000. His conclusion was that the position of the Grand Trunk was one of insolvency, and that without government assistance the Company could have been forced into receivership. See Evidence p. 341.

The serious situation was also disclosed by Mr. Chamberlain, President of the Grand Trunk. See Evidence pp. 656-659.

I would also refer to the letter from Sir Alfred Smithers, Chairman of the Board of Grand Trunk to Sir Robert Borden in which he states: 'We are now at the end of our tether with regard to Grand Trunk Pacific financing.'

Mr. Fairweather, the Director of the Bureau of Economics of the Canadian National Railway, deposes that it was quite evident to him that by 1920 if the government did not intervene bankruptcy was inevitable. The Grand Trunk had reached its end; its reserves

depleted; its credit was exhausted; it was facing heavy maturities of securities, and large expenditures were required for deferred maintenance if the property was to be kept in a condition to handle traffic. See Evidence pp. 382-388.

The government had advanced \$84,000,000 and had guaranteed \$50,000,000 for new Grand Trunk security issues; in addition there was due to the government almost \$16,000,000 made up of unpaid interest and cash advances. See Evidence p. 387.

On the whole case, we are of opinion that the action was rightly dismissed."

--EXHIBIT 223-D: Judgment of Ontario Court of Appeal in Lovibond v. Grand Trunk et al.

MR O'DONNELL: Q. So much, then, Mr. Cooper, for the situation in so far as the Grand Trunk was concerned. You said you wanted to discuss the various roads individually. Now, would you please tell the Commissioners what you have to say concerning the situation in so far as the Canadian Northern was concerned?

A. I would wish to quote from the Drayton-Acworth Report at page XLI:

"We think that \$40 Millions for equipment and perhaps \$30 millions for additions and betterments would be a moderate estimate of the System's needs in the next 5 years assuming that the Canadian Northern remains separate and independent. We sum up the Canadian Northern situation as follows: The Company is not at present able, and will not for some years to come be able, to meet its fixed charges. It will, we doubt not, increase its net earnings as the years go by. But the increased net earnings will be fully

the first of the century, the city was a small town of about 10,000 inhabitants. It was a center of commerce and industry, and its growth was rapid. The city was the seat of the Massachusetts government, and its importance was increasing. The city was the center of the Puritan movement, and its influence was felt throughout the colony. The city was the seat of the first university in the New World, and its graduates were leaders in the colony. The city was the center of the first printing press in the New World, and its products were sold throughout the colony. The city was the seat of the first hospital in the New World, and its patients were cared for by the city. The city was the center of the first fire department in the New World, and its firefighters were brave and skilled. The city was the seat of the first police force in the New World, and its officers were honest and efficient. The city was the center of the first library in the New World, and its books were read by the people. The city was the seat of the first theater in the New World, and its performances were enjoyed by the people. The city was the center of the first circus in the New World, and its shows were popular. The city was the seat of the first fair in the New World, and its attractions were enjoyed by the people. The city was the center of the first festival in the New World, and its celebrations were grand. The city was the seat of the first election in the New World, and its results were watched by the people. The city was the center of the first revolution in the New World, and its leaders were brave and bold. The city was the seat of the first war in the New World, and its soldiers were brave and skilled. The city was the center of the first peace in the New World, and its terms were fair and just. The city was the seat of the first treaty in the New World, and its provisions were wise and sound. The city was the center of the first alliance in the New World, and its members were loyal and true. The city was the seat of the first union in the New World, and its members were united and strong. The city was the center of the first movement in the New World, and its leaders were brave and bold. The city was the seat of the first revolution in the New World, and its soldiers were brave and skilled. The city was the center of the first peace in the New World, and its terms were fair and just. The city was the seat of the first treaty in the New World, and its provisions were wise and sound. The city was the center of the first alliance in the New World, and its members were loyal and true. The city was the seat of the first union in the New World, and its members were united and strong. The city was the center of the first movement in the New World, and its leaders were brave and bold.

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absorbed for some years to come by the interest on new capital, which must be put in if the System is to render efficient service. The Company has not now, and as far as we can see will not have in the near future, such credit as to enable it to raise the necessary capital. As we have already shown, the public investment, direct and indirect, in the Canadian Northern System amounts to \$298,000,000. We do not recommend further public investment in the system, as at present constituted."

Q. Now, so much then for the situation concerning the Canadian Northern. Now will you tell the Commission what the position was with respect to the Canadian Government Railways?

(Page 18534 follows)

A. Of course, because they were owned and financed by the state, there could be no question of bankruptcy or insolvency. Nevertheless, their earnings were not sufficient to pay their operating expenses. There is a statement at page 135 of the Annual Report of the Department of Railways and Canals for the fiscal year ended March 31, 1923. Do you wish me to read that?

Q. / Would you just give the Commission that reference or the extract you refer to? Unfortunately, we have available only one copy of this document. For that reason, we might put this on the record.

A. This statement shows that in the preceding seven fiscal years -- that is, the seven years prior to March 31, 1923 -- the expenses of operation exceeded revenues by substantial amounts: for the fiscal year ended March 31, 1917, \$1,185,813; for the fiscal year ended March 31, 1918, \$6,159,503; for the next fiscal year, \$5,875,900; for the next fiscal year, \$6,792,648; for the next fiscal year, \$6,956,621; for the next fiscal year, \$6,326,800; and for the fiscal ended March 31, 1923, \$5,695,669. In those seven years preceding March 31, 1923, there was a loss of \$38,992,954, exclusive of interest. The statement also gives the result for the entire period from confederation.

Q. That is, that same report that you have been reading from?

A. Yes.

Q. The Annual Report of the Department of Railways and Canals for the fiscal year ended March 31, 1923?

A. Yes. The results from confederation to March 31, 1923: the revenue received was \$391,866,392; the expenses

were \$442,191,685, a deficit exclusive of interest of \$50,325,293. I think it is quite clear that the Canadian Government Railways did not add to the earning power of the newly created system.

Q. That is, the Canadian National as created in 1923?

A. Yes.

Q. Having reviewed the situation with regard to the individual roads which were taken into the Canadian National system at amalgamation, are there any other remarks of a general nature that you might make to the Commission at this time concerning that whole situation.

A. I have already referred to the large expenditures needed to put the railway into shape for safe operation. It is not to be wondered at that large expenditures were needed to catch up deferred maintenance, to make needed improvements and to co-ordinate the separate railways into one system. After all, there had been a war that extended over four years; and from our experience in World War II, we know how impossible it is to escape deferred maintenance, delayed improvements and shortages of equipment. The fact is that, under the war conditions, men and materials ^{simply} are not available. On top of the fact that they were emerging from war conditions was the even greater difficulty that these railways had no money. As stated in Exhibit 214, at page 16, these railways had broken down and had been kept going only by hand-outs from the national exchequer. They had no reserve either for deferred maintenance or for depreciation and obsolescence. Perhaps the situation cannot be better described than was done by John Walker Barriger in an address which he delivered to the American

Branch of the Newcomen Society of England on November 21, 1944.

Q. Who was Mr. Barriger?

A. Mr. Barriger is the President of the Chicago, Indianapolis and Louisville Railway. I quote:

"In the United States, the financial excesses of early railroad development were liquidated through foreclosure in re-organization, but in Canada, the National fell heir to the sum total of all the corporate and financial mistakes of its predecessor companies. These burdens were compounded by an obligation to pay interest on the government advances that were made to cover all past deficits. This requirement produced constantly mounting additions of interest bearing debt for which there was no off-setting income-producing assets. Sir Henry made his ultimate downfall inevitable when he neglected to require, as a condition precedent to acceptance of the Presidency of the Canadian National in 1922, that its accounts be restated to a capitalization commensurate only with the fair valuation of its property and that adequate reserves be established to reflect its serious accumulation of depreciation and obsolescence."

Q. Do you agree with that statement of Mr. Barriger's, Mr. Cooper?

A. Yes. I think events have proven it to be correct. I hope they will not make the same mistake again.

Q. Do you think the situation should be cleared up at this time?

A. Yes, I do. I think the situation should be cleared up and I think it should be cleared up now.

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Q. So much for the various statements and items in Mr. Gordon's submission to the Commissioners on Friday last. I am now going to ask you to go over certain parts of the main brief which has been produced as Exhibit 214. First, Mr. Cooper, I would ask you if --

THE CHAIRMAN: What page did you say, Mr. O'Donnell?

MR. O'DONNELL: I will start at pages 7, 8, 9 and 10, and I have just one short question there.

Q. First, let me ask you, Mr. Cooper, to state that the statistics and figures set out on pages 7, 8, 9 and 10 are correct.

A. They are.

Q. I would draw the attention of the Commission to the last sentence on page 12 of the submission where it is stated that:

"A proper comprehension of the reasons for the disappointing financial results, as distinguished from the actual efficiency with which operations are conducted, requires an understanding of the factual background of the Canadian National Railways system."

I understand that you had considerable to do with the preparation of the historical and statistical data included in this Exhibit 214 and also with the comparisons of the Canadian National's fixed charges with those of other major railroads. Is that correct?

A. Yes.

Q. Will you please look at page 13

and following pages of the brief, where you set out the various steps taken, out of which there emerged

[illegible]

the Canadian National Railways as it has existed since January 1, 1923. I have no questions to ask you, but are there any comments that you wish to make with respect to what is stated on pages 13, 14, 15 and part of page 16 concerning that statistical and historical data?

A. This section gives a brief synoptical history of how the four railway systems were combined to form the Canadian National system. There was the Grand Trunk Company of Canada together with its chain of subsidiaries; the Canadian Northern Railway Company which also had a large number of subsidiary companies; and the Grand Trunk Pacific Railway Company/which likewise had a number of subsidiaries.

Then there were the Canadian Government Railways. It is not a corporation. Title to its property is in the name of the Crown and for the most part of its existence it was operated as a department of government. The principal railways in the Crown-owned system are: the Intercolonial Railway, the National Transcontinental Railway and the Prince Edward Island Railway. There is a list of them at page 134 of the Report of the Department of Railways and Canals, Exhibit 224. The list includes the Hudson's Bay Railway.

THE CHAIRMAN: What about the Hudson's Bay Railway?

A. I said it was included in the list I have just referred to in the Report of the Department of Railways and Canals. The Hudson's Bay Railway was one of the railways which was entrusted to the Canadian National, in 1923, but it was taken out again in 1926 and it is not now considered part of the

Canadian National Railways system.

Q. We have heard much about that railway. Do you refer to its elsewhere? Is anybody interested in telling us about it?

A. If anyone is concerned, I think it would have to be someone from the Department of Transport. The railway is operated under the Department of Transport of the Government.

Q. Is that the only railway in Canada which is now operated in that manner?

A. I think it is.

THE CHAIRMAN: All right.

THE WITNESS: I thought it would be a good thing to have in some authoritative record, such as no doubt will be the report of this present Royal Commission, a brief record of this sort. Perhaps I may say here that I have had the same thought with respect to the accounts of the system. I am sure it is difficult for anyone reading our Annual Reports to compile readily a clear and concise statement of operating results. Many things have happened since 1923 which make the compilation of such a statement difficult. The Hudson's Bay Railway, for example, was in the system but was taken out later. The eastern lines were taken out of the system as a result of the Maritime Freight Rates Act. They were excluded from July 1, 1927, but were put back again as part of the system from January 1, 1932. The revisions authorized by the Capital Revision Act of 1937 have added their complications. The revisions then made had retroactive effect, so much so that all the published accounts prior to 1937 need to

Q. Now I want to ask about that railway. Do you

know to the eastward? Is anybody interested in it?

A. Yes, I do.

Q. Is anyone interested, I think it would have

to be known from the Government of Tanzania. The

railway is operated under the Government of Tanzania

of the Government.

Q. Is that the only railway to the east which is

operated by the Government?

A. Yes, it is.

THE HON. MEMBER: Yes, right.

Q. Now, I want to ask you about the railway

which is in the north of the country, the railway

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be revised if there is to be a consistent presentation of results conforming to the policy as directed by Parliament pursuant to that Act.

There have also been a lot of accounting adjustments of one kind or another. They are bookkeeping entries which did not as a rule represent cash transactions. In arriving at the annual cash settlements between the Railway and the Government these bookkeeping entries had to be excluded. It seemed to me therefore that it was highly desirable to have an accounting record which might be accepted as the official record of the accounts of the System since 1923.

Q. And you have acted accordingly and have considered it well to have these accounting figures included in the submission to the present Commission in a somewhat similar manner to what was done in the 1932 Report of the Duff Commission?

A. Yes, naturally a report of a Royal Commission will always be treated with respect.

THE CHAIRMAN: Are you sure of that?

MR. O'DONNELL: Can you guarantee that, Mr. Cooper?

A. Well, I would always look back to the Drayton Report and the Duff Report. We may not agree with all the conclusions, but I think they had their facts right.

Q. And on that basis you have prepared these tables that you refer to?

A. Yes, I felt sure the members of the Commission and those who are assisting them will be materially assisted by the simplification and consistency with which our results are set out in this Submission.

Some years ago the Dominion Bureau of Statistics decided to publish a record of the accounting affairs of the Canadian National Railways. They ran into some of the difficulties to which I have referred, but statements were

finally agreed to by the Bureau and ourselves and they appear in pamphlet form such as this one Exhibit 531 which has already been filed, I think, under No. 218.

Q. The pamphlet that you refer to is that produced here as Exhibit 218?

A. Yes, it was produced on Friday. The net income results as shown in Column P on page 7 of this pamphlet agree with the net income results as included in this Main Submission. I am referring to Tables 1, 2, 3, 4 and 10 of our present Exhibit 214.

Q. And this column P on page 7 of Exhibit 218 has the other computations that you refer to?

A. Yes, what I am saying there is that the figures given in this statement are in agreement with the figures published by the Dominion Bureau of Statistics.

Q. Now, Mr. Cooper, what have you to say about the net income results for the five years preceding amalgamation, that is, from 1918 to 1922, which are shown on page 17 of Exhibit 214?

A. They do not appear - -

Q. Are they in the D.B.S. pamphlet that you refer to?

A. No, they have been taken from the corporate records of the various corporations, and I have two statements here which I will file as exhibits. Exhibit 224 - -

Q. Just at this point I think we might clear the record. Mr. Cooper mentions 224. That was the report which I think he was merely quoting from, inasmuch as he referred to it by No. 224. I think we should have it produced as such. It is the Report of the Department of Railways and Canals for the year 1923; it is the Annual Report of the Department of Railways and Canals for the fiscal year from April 1, 1922 to March 31, 1923.

...EXHIBIT 224 ... filed by : Annual Report of
Mr. O'Donnell : Department of Rail-
: ways and Canals,
: 1922-1923.

This Exhibit 225 will be the statement that Mr. Cooper mentioned, which is entitled "Result of Operations, 1918-1922", and I understand, Mr. Cooper, that that statement has been filed on an annual basis, that is, the results of each of these railways by years through the years 1918-1922 inclusive.

A. And that is how they are shown on Exhibit 225.

...EXHIBIT 225...filed by : Statement entitled
Mr. O'Donnell : "Result of Operations,
: 1918-1922" by years.

Q. Now, would you just explain Exhibit 225 briefly to the Commission?

A. Exhibit 225 shows the results by each of the five years.

Q. And 226 will be another exhibit for the same period entitled "Result of Operations, 1918-1922" and that is showing the result of each of these companies by corporations, so to speak?

A. Yes.

...EXHIBIT 226...filed by : Statement entitled
Mr. O'Donnell : "Result of Operations,
: 1918-1922" by cor-
: porations.

THE WITNESS: The five year loss for the Grand Trunk is shown to be \$34,971,134.

MR. O'DONNELL: Q. What Exhibit is that on?

1. The first part of the document is a list of items.
2. The second part is a description of the items.
3. The third part is a list of items.
4. The fourth part is a description of the items.

5. The fifth part is a list of items.
6. The sixth part is a description of the items.
7. The seventh part is a list of items.
8. The eighth part is a description of the items.

9. The ninth part is a list of items.

10. The tenth part is a list of items.
11. The eleventh part is a description of the items.
12. The twelfth part is a list of items.

13. The thirteenth part is a list of items.
14. The fourteenth part is a description of the items.

15. The fifteenth part is a list of items.

16. The sixteenth part is a list of items.
17. The seventeenth part is a description of the items.
18. The eighteenth part is a list of items.
19. The nineteenth part is a description of the items.
20. The twentieth part is a list of items.

21. The twenty-first part is a list of items.
22. The twenty-second part is a description of the items.
23. The twenty-third part is a list of items.

24. The twenty-fourth part is a list of items.
25. The twenty-fifth part is a description of the items.
26. The twenty-sixth part is a list of items.

A. That is on Exhibit 226, seventh column.

Q. It is the column entitled "Balance after Interest due Public"?

A. Yes.

Q. \$34,971,134, yes?

A. The loss for the Canadian Northern is shown to have been \$100,992,576 ; for the Canadian Government Railways, \$31,630,668; and for the Grand Trunk Pacific, \$45,304,170. The statement shows a figure of \$50,652,322, bht from that - -

Q. That is at the bottom of that column entitled "Balance after Interest Due"?

A. Yes, but the statement shows a figure of \$50,652,322, from which should be deducted \$5,348,152 shown at the foot of that column, making a loss for the Grand Trunk Pacific of \$45,304,170. These losses are all exclusive of interest on Government loans.

Q. No interest for Government loans included in those losses?

A. No.

Q. And what about the profit and loss figures which are shown on the statements? Are they included?

A. No, those were also excluded.

Q. Now, is there anything else with respect to the statements to which you particularly wish to direct attention?

A. No, I don't think so.

Q. You say that interest on Government loans has been omitted from your computation of the losses that you have just recited. Why is that?

1. The first part of the report is a general introduction to the subject.

2. The second part is a detailed description of the methods used.

3. The third part is a discussion of the results.

4. The fourth part is a conclusion.

5. The fifth part is a list of references.

6. The sixth part is a list of figures.

7. The seventh part is a list of tables.

8. The eighth part is a list of appendices.

9. The ninth part is a list of footnotes.

10. The tenth part is a list of errata.

11. The eleventh part is a list of acknowledgments.

12. The twelfth part is a list of dedications.

13. The thirteenth part is a list of prefaces.

14. The fourteenth part is a list of forewords.

15. The fifteenth part is a list of introductions.

16. The sixteenth part is a list of conclusions.

17. The seventeenth part is a list of summaries.

18. The eighteenth part is a list of abstracts.

19. The nineteenth part is a list of indexes.

20. The twentieth part is a list of glossaries.

21. The twenty-first part is a list of bibliographies.

22. The twenty-second part is a list of references.

23. The twenty-third part is a list of footnotes.

24. The twenty-fourth part is a list of errata.

25. The twenty-fifth part is a list of acknowledgments.

26. The twenty-sixth part is a list of dedications.

27. The twenty-seventh part is a list of prefaces.

28. The twenty-eighth part is a list of forewords.

29. The twenty-ninth part is a list of introductions.

30. The thirtieth part is a list of conclusions.

31. The thirty-first part is a list of summaries.

32. The thirty-second part is a list of abstracts.

33. The thirty-third part is a list of indexes.

34. The thirty-fourth part is a list of glossaries.

A. It is omitted in the interest of simplification. With respect to interest on loans for deficits we always took the position that they were not additional capital, they did not produce assets capable of earning a return and an interest charge could not be justified. These views were subsequently adopted and made effective through the Capital Revision Act. We had no particular objection to being charged with interest on loans for capital purposes; however, the fact remains that by the Capital Revision Act of 1937 all interest was cancelled, loans for deficits were cancelled and loans for capital were converted into equity capital. By leaving interest on Government loans out of the results shown in the Main Submission we have merely presented the position on the basis which the Capital Revision Act authorized.

Q. Now, what would have been the net income result in the 5-year period 1918-1922 if interest on Government loans had been included?

A. The deficit for the period would have been increased by \$72,799,281.

Q. That is the total deficit for those roads that you listed on this Exhibit 225. Is there anything else you would like to add as showing the earning position of these four railway systems just prior to amalgamation?

A. The only other thing that might be mentioned is that the balance sheets of the four railways at December 31, 1922, show their profit and loss debit balances to be as under:-

Canadian Government Railway	\$ 12,022,469
Grand Trunk Railway	25,945,844
Grand Trunk Pacific Railways	76,636,809
Canadian Northern Railway	120,346,777

and the total deficit for the four railways at December 31, 1922, was \$234,951,901.

Q. Now, can you give the Commissioners any reason why in your view nothing appears to have been done to give the then newly organized System a reasonable capital structure with that heavy debt position and those tremendous deficits? Doesn't it seem obvious that something should have been done at that time in your view?

A. I can readily agree it seems obvious to us now that something should have been done then. There seems to have been general acceptance of the contention that the debts of the Railway were far in excess of its ability to carry. I think one of the reasons why Government loans for deficits and interest charges were permitted to pile up to fantastic figures had to do with the conditions which obtained between the time Government assistance was first needed and the dates final control passed to the Government.

During this period the Canadian Northern, Grand Trunk Pacific, and Grand Trunk were under private ownership; the Government was not then the shareholder and the Government required that its loans should have priority before the share capital.

There were certain securities which were entitled to interest payments if net earnings were available and the assessment of interest charges on Government loans had the effect of deferring interest on such securities. I am

thinking of the Canadian Northern 5% Income Charge Debenture Stock and of the Grand Trunk Pacific 4% Debenture Stock, conditionally guaranteed (if net earnings were available) by the Grand Trunk Railway Co. of Canada. The Government loans and the interest thereon were also factors to be given weight in assessing the value of the Canadian Northern and Grand Trunk capital stocks, the value of which was a matter for arbitration. Out of these conditions there grew up the practice of treating all the Government advances and as capital loans/^{and} the legislation authorizing the loans called for interest at a rate named or to be determined by the Governor-in-Council. The situation was completely altered however when private control disappeared, but apparently it needed legislation before the previous practice could be changed.

I think the Drayton-Agnew Commission were of the opinion that while the three railway companies were insolvent the circumstances were unusual. The companies had broken down and the Commission saw no way to organize new companies to take their place. They also considered that for reasons of national credit Canada should assume responsibility for the interest on the securities of the companies held by the public. That was in 1917.

... SHORT RECESS

(Page 18548 follows)

---Upon resuming.

MR. O'DONNELL: Q. Mr. Cooper, at the adjournment you were referring to the Drayton-Acworth Commission, and the opinion of the Commissioners that while the three railways they were dealing with were insolvent, the circumstances were unusual, and the companies had broken down, and the Commission found no way to organize new companies to take their place. That was in 1917. Now, would you, for the convenience of the Commission, place on the record the particular extracts from the Drayton-Acworth report to which you had reference?

A. Quoting from page xlvi.

Q. That is in Roman numerals?

A. Yes; and I quote:

"Starting then from this position, we have to consider what alternative course is to be adopted."

Q. That is under the heading of "Receivership Discussed and Rejected"?

A. Yes.

"It is clear that neither the Canadian Northern nor the Grand Trunk can at the present moment meet its liabilities. In the United States when a company is in this position it is placed in the hands of a receiver. And at this moment upwards of 40,000 miles of line are in that situation."

Q. Yes?

A. And then at page li, still in Roman numerals, I quote, speaking of the Canadian Northern and the Grand Trunk and the Grand Trunk Pacific:

"These companies have broken down. We see no way to organize new companies to take their place. Their only possible successor is in our view a public authority. We are confronted with a condition and

not a theory."

And then again on page xlvi, still in Roman numerals, I quote:

"But if two companies went into the hands of receivers, we cannot doubt that investors outside Canada would believe, however erroneously, that the Dominion Government had treated them badly, and that the result would be serious injury to the credit of the Canadian Government and indeed of all Canadian enterprises. And this result is one that, putting it on pecuniary grounds alone, the Canadian people should in their own interest spend a good deal of money to avoid. We therefore consider that Canada should assume the responsibility of seeing that the interest on these securities is met."

Those were the quotations which I had in mind.

And then, on page lxxxvii, recommendation No. 28 reads:

"28. We recommend that the Government assume responsibility to the Dominion Railway Company for the interest on the existing securities of the transferred companies."

Q. Those are the extracts then which you had particularly in mind when referring to the Drayton-Acworth report?

A. Yes.

Q. Now, the whole matter of the capital structure of the Canadian National was referred to by other bodies and persons through the years. Have you any comments you would like to make in connection with this subject?

A. On August 12, 1921, Sir Joseph Flavelle, who was the Chairman of the Board of the Grand Trunk, addressed a letter to the Right Hon. Arthur Meighen, Prime Minister

of Canada.

Q. That is the letter a copy of which was produced the other day as Exhibit 220? You are referring to that letter?

A. Yes.

Q. And particularly to what?

A. I am referring to pages 15 and 16 in this letter.

Sir Joseph Flavelle recommended a method of dealing with the situation something like this: that the Government take common shares at par value in payment of its existing advances to the various systems. These at the end of 1920 amounted to \$353 millions. That future capital expenditures should be financed by Government advances from year to year and capitalized by the issue to the Government of preference stock taken at par.

That future annual deficits should be financed by the Government against which there should be an issue to the Government of common stock taken at par.

He also said that the cost of the Canadian Government railways should be written off at once.

Q. And the cost of constructing the Intercolonial and Transcontinental Railways would be written off at once?

A. Yes.

Q. And these extracts which you refer to would be found at pages 15 and 16 of Exhibit 220?

A. Yes.

Q. And you have not read verbatim the extracts, you have merely summarized them?

A. That is right.

Q. Then, when next was this subject discussed or considered?

A. It was referred to in the Annual Report of the

1911, 1912, 1913, 1914, 1915, 1916, 1917, 1918, 1919, 1920, 1921, 1922, 1923, 1924, 1925, 1926, 1927, 1928, 1929, 1930, 1931, 1932, 1933, 1934, 1935, 1936, 1937, 1938, 1939, 1940, 1941, 1942, 1943, 1944, 1945, 1946, 1947, 1948, 1949, 1950, 1951, 1952, 1953, 1954, 1955, 1956, 1957, 1958, 1959, 1960, 1961, 1962, 1963, 1964, 1965, 1966, 1967, 1968, 1969, 1970, 1971, 1972, 1973, 1974, 1975, 1976, 1977, 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 25

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railway for the year 1923. This report was dated May 1, 1924, and was signed by Sir Henry Thornton. He said, quoting from page 7:

"Consideration is being given to the policy to be followed with respect to the capitalization of the system, and the extent to which, if at all, the advances made and capital held by the Government should be written down to a figure which may be regarded as consistent with the earning prospects of the railway. In the consideration of such a problem, the interests of the Government, which is to say the people of Canada, must be given due weight. On the other hand it would seem unreasonable to burden the Canadian National Railways with a load which is beyond its conceivable earning capacity. The directors have this problem under consideration but before any definite recommendations can be made, a careful survey must be made of the capital position of the company, not only with a view to meeting the difficulty explained in this paragraph but also to simplifying and consolidating a variety of securities outstanding."

Q. The only reference there made is to that part of the debt which is held by the Government?

A. Yes.

Q. And there was no solution suggested for that portion of the debt which was in the hands of the public?

A. It is quite interesting to note that in these references no attempt was made to indicate any action that should be taken with respect to those securities which were in the hands of the public. They were always directed to the amount of debt held by the Government.

Q. And in so far as the public was concerned, that was for another time, and for somebody else to handle?

A. Yes.

In March, 1925, Messrs. Edwards, Morgan and Company and Peat, Marwick, Mitchell and Company made a joint report to the board of audit in which they outlined various bases of determining the value of Canadian National Railways and also the effect on the accounts of the railway and on the accounts of the Government if such valuations and certain changes in classifications were made effective.

Then, in March, 1929, Sir Henry Thornton advanced certain recommendations for a revision of the financial structure of the railway. He recommended that interest on Government loans be cancelled, that loans for deficits be cancelled, and that the remainder of the loans should be represented by income charge bonds.

Q. Have you got a copy of the recommendations made by Sir Henry Thornton? If so, I would ask you to produce it as Exhibit 227.

EXHIBIT 227: Filed by : Recommendations for
Mr. O'Donnell: a revision of the
: financial structure
: of the Canadian
: National Railways.

THE CHAIRMAN: When were these recommendations made?

MR. O'DONNELL: Yes, can you give the Chairman that information?

A. The report is dated March 8, 1929.

Q. And the report is entitled: "Recommendations for a revision of the financial structure of the Canadian National Railways". And it is a 19-page document, and is produced as Exhibit 227, and is signed by Sir Henry Thornton?

A. Yes. Then, in September, 1932, --

Q. Before leaving that, it might be a matter of convenience, possibly, to record recommendations C, D and E,

which appear at pages 12 and 13 of that report, Exhibit 227. I might just read them into the record.

"C - To permit the writing off of the item 'Interest on Dominion of Canada Account Accrued but Unpaid' -- \$258,024,307.41, which represents interest accrued on the railway books in favour of the Government to the 31st of December, 1928, but unpaid.

D - To permit the reduction of the item -- loans from Dominion of Canada account, viz. \$614,912,221.02 by writing off \$287,816,222.77, which latter amount represents income deficits sustained to date and makes provision for capital losses, such as the writing out from Investment Account of property retired as the result of co-ordination.

E - To permit the issue by the Canadian National Railway Company of its bonds in the sum of \$16,000,000, to be issued either to the Government or to the public, such bonds to be guaranteed by the Government and to be used for the purpose of liquidating that portion of the Government loan confirmed by Chapter 4-5, George V, Second Session, in order to secure the release of securities deposited as collateral thereto; and income charge bonds in the sum of \$311,095,998.25, for the remainder (\$327,095,998.25) of the item \$614,912,221.02 mentioned in Paragraph D of this memorandum; such guaranteed bonds and income charge bonds to be in such form and to contain such terms and conditions as may be approved by the Governor in Council. The income charge bonds so issued to be delivered to the Minister of Finance on behalf of His Majesty

and the Canadian National Railways to be subrogated in respect of any indebtedness of any subsidiary company to His Majesty included in the said loans from Dominion of Canada."

Now, those are, in part, recommendations which Sir Henry Thornton made?

A. Yes.

Q. And they were still restricted to deal, for the most part, with debt which was in the hands of the Government?

A. Yes. Then, in September, 1932, we had the report of the Royal Commission under the chairmanship of the Right Hon. Lyman Duff, P.C.

The Commission reported in paragraphs 86 and 87, that if the capital liabilities of the system were adjusted to an earnings basis a very drastic writing down would be necessary. While the Commission was of the opinion that the capital liabilities should be heavily written down they did not consider the time opportune but thought the question should have the early attention of the board of trustees which it was recommended should be entrusted with the controlling management of the system.

Q. It might be advisable just to record those particular paragraphs in the transcript from the Duff Report; the paragraph at page 30, No. 86, which reads as follows:

"It has been suggested that in view of the excessive capital liabilities in relation to the earning power of the System they should be reduced to an amount which would more nearly approximate the earning power of the railway. The net operating income (i.e., the amount available for

interest and dividends) of the Canadian National System for the period 1923 to 1931 inclusive averaged \$24,414,447 per annum. This figure would require adjustment if adequate provision were made for depreciation. It is obvious that on this basis of earnings the capital liabilities would require a very drastic writing down. And while this Commission is of opinion that it must be frankly recognized that a very substantial part of the money invested in the railways comprised within the Canadian National System must be regarded as lost and that its capital liabilities should be heavily written down, they do not consider that the time is opportune to deal with this important matter.

87. This question as well as that previously referred to, dealing with the present involved financial structure of the Canadian National System, should, in the opinion of the Commission, have the early attention of the board of trustees, which it is recommended should be entrusted with the control and management of the System."

Q. What next happened?

A. On March 21, 1933, the Minister of Finance informed the House that the Government would implement the recommendations of the Commission that sums which are required to meet deficits should be voted by Parliament annually.

Then came the recommendations leading to the Capital Revision Act of 1937, all of which are set out in the main submission, which is Exhibit 214, on pages 26 to 34.

Q. Yes, in Exhibit 214 at pages 26 to 34, where the details you are talking of now appear?

A. Yes. All I want to say at this point is to emphasize that the Capital Revision Act of 1937 was never intended to be a cure for all the ills which beset the railway's finances.

The revision was related only to the relationship between the railway and the Government as to the Government's position as both shareholder and creditor. The railway has tried to make it very clear that the revision did not go far enough. It was so stated by the board of trustees of which the late Hon. Judge Fullerton was chairman.

The board of trustees was later superseded by a board of directors, and when asked for their views the directors passed the following minute:

"No. 212 - January 21, 1937.

Further consideration was given to the draft (dated January 6, 1937) of the proposed Bill entitled 'An Act to provide for revision of the accounting set-up of the Canadian National Railway System.'

It was unanimously resolved that the directors approve the policy of the said Bill.

They desire to add that they reserve the right to recommend additional measures when they have had time and opportunity for a more detailed study of the capitalization and general financial position of the System.

Acknowledging receipt of this resolution, the Minister of Transport said:

'Ottawa, January 25, 1937

Dear Mr. Hungerford,

Thanks for yours of January 21st, to advise that your directors have approved the policy of

the draft bill providing for revision of the accounting set-up of the Canadian National Railways.

Your directors will of course have the right at any time, to recommend additional measures along the same lines.

Yours faithfully,

(Sgd.) C.D. Howe."

During the recent war a large number of Canadian National Railway securities which had been domiciled in the United Kingdom were repatriated. They had a par value of \$410 million. On October 3, 1944, the board of directors decided representations should be made to the Government to the end that the present indebtedness of the railway to the Government in respect of advances made for the repatriation of securities be exchanged for income charge bonds on which the interest would be payable only to the extent it had been earned from the year's operations. However, nothing came of the recommendation at that time.

It is safe to say that this matter of recapitalization has been under consideration on and off since 1917, a period of over thirty years. There has been general agreement that the railway's debt structure is far too heavy and that something should be done about it, but there has been a tendency to leave the problem for someone else, or for another day.

The principal difficulty seems to be related to the railway securities held by the public. At no time was any suggestion advanced for relieving the railway of the principal and interest of the securities held by the public.

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It was found possible in 1937 to adjust the debt of the Railway in so far as it was held by the Government as creditor. There is little doubt that if more of the debt had been held by the Government and less by the public in 1937 a larger measure of relief would have been given.

The proposal by the President, Mr. Donald Gordon, suggests a method of extending an adjustment beyond the debt held by the Government. It shows the advantage of having the situation reviewed by a fresh mind. The debt held by the public heretofore has been assumed to be a bar against a complete and satisfactory adjustment of our capital structure, but the President has indicated how the obstacle can be by-passed. It is singular that we have had to wait so long for what appears to be a simple solution.

Q. Now I call attention to certain securities, on page 17 of Exhibit 214, the interest on which was on a contingent basis while the railways were under private ownership. There was first an issue of \$60,833,333 Grand Trunk Railway 4 per cent guaranteed stock. Is there anything you wish to add to what is said in the brief concerning that item?

A. This was really a preference stock which ranked ahead of the Grand Trunk First Preference Stock. They had common stock and then 3rd and 2nd and 1st, then they wanted something ahead of the 1st preference but which nevertheless would not carry a fixed charge and would be entitled to a dividend only if earned. The word "Guaranteed" really had no meaning. The Company guaranteed to pay the dividend if they earned it. It was one of the terms in the acquisition agreement between the Government and the Railway Company that the Government should guarantee unconditionally the interest on this stock, and doing that added to the

fixed charges of the Railway beyond what they had been under private ownership. It was really part of the purchase price paid by the Government to acquire the Grand Trunk, but the cost to the Government was transferred to the Railway and added to its fixed charges.

Q. Incidentally, that is the issue which is set out referred to on Exhibit 219, the fifth line, under the securities guaranteed by the Dominion Government, the issue of \$60,833,333?

A. Yes.

Q. Two other issues referred to on page 18 of the main brief, what would you say as to those?

A. These two other issues, the \$34,879,252 of Grand Trunk Pacific debenture stock, and the \$24,140,174 Canadian Northern debenture stock, were entitled to interest if earned. This meant that after amalgamation we had to figure out the net earnings of the Grand Trunk and Canadian Northern companies as if they had not been amalgamated. It was thought better to make some composition with the holders of these securities and get them out of the way, but in doing this, interest which had been payable only if earned became a fixed charge, but for a reduced amount. The Drayton-Acworth Report, page LXX, had recommended that a settlement with the Canadian Northern debenture stock holders be negotiated.

Q. Now, on the next page of the brief, following on, on pages 19 and 20, you claim that the Canadian National has been required to absorb the annual interest on about \$140 millions of capital expenditures on the Canadian Government Railways, meaning I suppose the Intercolonial, the National Transcontinental and other Government-owned roads?

A. Yes.

Q. You think that the interest burden should have been

put on the railway?

A. Yes, I do.

Q. Where should it appear?

A. I think it should have rested in the Public Accounts. I think in my evidence on Friday we went into that at some length, and perhaps it is not necessary to go over it again.

I perhaps should explain that, whereas in the main submission, Exhibit 214, we refer to the Canadian Government capital expenditures as totalling \$140 millions, in Mr. Gordon's statement the amount has been broken down. \$110 millions is included in section 4, and the remainder is included in sections 5 and 6 of his statement.

Q. Now, your contention with respect to the interest, which you say should appear in the Public Accounts, is that it should have continued to be paid by the Government, as was the case prior to amalgamation?

A. It seems reasonable to me that that should be so. I might add there, Mr. O'Donnell, the matter was referred to in the Drayton-Acworth Report. They recommended at page LXXII that the Intercolonial and Transcontinental lines should be handed over free of cost. In my opinion these railways were not built for profit; they were never operated on a commercial basis; they could not earn their operating expenses. The Intercolonial was built under the pact of Confederation. The National Transcontinental was built as a common railway highway across the Dominion from ocean to ocean. Everything surrounding the construction and development of the Crown-owned railways runs counter to the idea that they should be expected to earn an interest return on their cost.

A. And I think that you told the Commission on Friday last when you produced Exhibit 221 how the figure of \$140

millions, that is, the round figure which is mentioned on page 20 of the main submission, was arrived at. It appears on the face of exhibit 221, does it not?

A. Yes. Exhibit 221 gives the full detail making up the amount of \$140 million.

Q. Now, on page 20 of Exhibit 214, the main brief, it is said:

"In all about \$140 millions has been expended by the Railway Company for account of Canadian Government Railways' property investment, and it is estimated this has added \$4,746,000 to the fixed charges of the System."

Could you tell the Commission how you arrive at that amount of interest?

A. Our average interest rate in 1948 was 3.39 per cent, and I applied that rate to the \$140 millions, and that produced the figure of \$4,746,000 as the annual interest charged.

Q. Referred to on page 20. Now would you be good enough to turn to page 22 of the main brief, where you give the results of operations, in Table 1, for the years 1923 to 1931. Will you please tell the Commission why you stopped and cut the table off at 1931?

A. I did that so that the submission to the present Commission would be tied in with the Duff Report. In the Duff Report at page 15 they give the results of operation 1923 to 1931, and our figures tie in with that -- not exactly, but the difference is negligible.

Q. Now will you please turn to page 23 of the main brief---

COMMISSIONER INNIS: What is the explanation in that table on page 22 of the fact that the net revenues in 1923 are \$21,123,544, and---

MR O'DONNELL: I beg your pardon, sir?

COMMISSIONER INNIS: In this table on page 22, the 1924 net revenue is \$17 millions, and

net income available to pay fixed charges \$20 million, ---

THE WITNESS: Between that revenue and net income available to pay fixed charges there are some other accounts such as taxes, hire of equipment and miscellaneous income charges. We did not put a column in this table; it did not seem essential, but---

COMMISSIONER INNIS: Q. It seems rather odd that your net income should be higher than your net revenue.

A. Almost invariably the amount of net income available to pay fixed charges would be less than net revenue. As you point out, in the year 1924 that year seems to have been an exception, but without looking into ^{it} I could not tell you just what it is.

THE CHAIRMAN: The question is, how would you account for the extra amount? With a net revenue of \$17 millions you had income available of \$20 millions.

THE WITNESS: I will take a look at that and answer your question later if I may.

MR O'DONNELL: I think, Dr. Innis, on Exhibit 217 at page 4, for instance, you see there the various items, below the net railway operating income line, which may have come into play with respect to these matters, and Mr. Cooper in any event will get the annual report and look it up and give you the information.

Q. Now, Mr. Cooper, will you be good enough to turn to page 23, where you explain that you have included the accounts for eastern lines as if they had never been separated as required by section 6 of the Maritime Freight Rates Act. Have you any further comment to make with respect

to that?

A. That matter came up on Friday and I made a suggestion to the Commission that it might be helpful if they would see their way to recommend the repeal of that particular section.

Q. That is, section 6, which we put on the record on Friday?

A. Yes.

THE CHAIRMAN: Q. That is the section that is no longer being observed; is that it?

A. It is no longer being observed, sir, in our accounts, but in voting the deficit of the railway they divide the vote as between eastern lines and the balance of the system. The Government Department of Finance continue to observe the Act. The Act said that in the votes the deficit of the eastern lines should be voted separately, so that the Department of Finance continue to insist that it shall be voted separately, but beyond that the section is a dead letter.

MR O'DONNELL: Q. And you suggest that it would be helpful if the present Commission could recommend that it be repealed?

THE CHAIRMAN: What would happen if the section were entirely repealed, Mr. O'Donnell?

MR O'DONNELL: Q. Would you just explain---

THE CHAIRMAN: It is still being used for some purposes, I see.

THE WITNESS: No, sir, I do not think there is one purpose that I can think of. It entails a certain amount of work on our part in figuring out what the deficit of the eastern lines is. We have to do it in a very arbitrary way, because it would be a very costly affair to keep the accounts separately, and it continues in the votes

of the Commons merely because the section requires that that vote shall be shown separately, and the Department of Finance have not seen their way to set the section on one side. We have; we have set it aside.

MR O'DONNELL: The discussion we had the other day, my lord, just for the convenience of the Commission, appears at pages 18502 and following, where we put on the record the wording of the section.

THE CHAIRMAN: I am just wondering whether the routine of the section would affect anything that the Department of Finance is doing now.

MR O'DONNELL: According to Mr. Cooper, he does not think so.

Q. And your recommendation, Mr. Cooper, is that section 6 should be repealed?

A. Yes.

Q. As serving no useful purpose so far as you can see at the present time?

A. That is my view.

THE CHAIRMAN: Will we hear anything from the Department of Finance as to their views?

THE WITNESS: Well, that would be for you to decide, sir.

MR O'DONNELL: We know nothing about what goes on in the Government departments of various kinds.

THE WITNESS: I venture the thought that they would also be pleased to see it got rid of.

THE CHAIRMAN: You might make note of that.

MR COVERT: Yes, sir.

MR O'DONNELL: Q. You go on then, Mr. Cooper, at pages 26 to 31 of the main brief, to refer to the Capital Revision Act of 1937. Is there anything you wish to point out with respect to the adjustment which was provided by

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that Act?

THE CHAIRMAN: Where is that dealt with?

MR O'DONNELL: Pages 26 to 31, my lord, of Exhibit 214, the main brief.

THE WITNESS: I think there has been a great deal of misunderstanding as to the effect of the 1937 Capital revision. I have tried on pages 26 to 31 to make clear just what was done and why it was done, and why that revision was not, and was never thought to be, anything more than a partial adjustment which it was possible to make at that time, the adjustment being confined to the relationship between the Government and the Railway and not extending to the funded debt held by the public. I think the fact that on their adjusted basis the fixed charges absorbed 28 per cent of gross revenues whereas the corresponding ratio for the Canadian Pacific was only 17 per cent and the ratio for Class I railroads was only 16 per cent, is proof that no effort was made at that time to put Canadian National on a comparable basis with other railroads.

MR O'DONNELL: Q. Those figures last mentioned appear at the bottom of page 31, do they not, Mr. Cooper?

A. Yes.

Q. Now will you turn to page 32---

COMMISSIONER ANGUS: Q. Might I ask a question on page 30? You state the view that money that does not earn a direct interest return for the Canadian National Railways is nevertheless earning something for the economy; it is gainfully employed. Have you any test of that? I mean, it might be earning its keep and it might not be earning its keep. You might have a bridge that was constantly used and was adding to the national income, or you might have one that was misplaced and was not adding to the national

income. Have you any criterion there?

A. We refer there, sir, to that situation :

"The fact that the Government may not receive a direct interest return on a capital investment does not mean that the capital is lost. The nation does not expect an interest return on its investment in highways, airports, and public works generally. No one thinks of the money invested in the Intercolonial Railway as having been lost. The Quebec Bridge, the Prince Edward Island Ferry, the post offices, the Welland Canal, may not earn interest on their cost but that does not change the fact that they are national assets."

Q. I quite follow that. You can have a bridge which is a national asset and a very useful one, even if it is not paying a cent on its cost?

A. Yes.

Q. But you could also have a bridge that was totally useless and that was not paying a cent on its cost. Now, how do you distinguish one from the other, if you are without this test of the earnings? Is it just an act of faith, or is there some criterion?

A. I am countering the idea here, as was expressed in the Duff Report, that a great deal of the capital invested in the Canadian National Railways is lost merely because it does not show a return by commercial standards, and I think that is---

Q. Well, that may be so, but isn't it just indeterminate, that this may be a useful asset? It may not be a useful asset. You have no means of testing?

A. I have no doubt in the expenditures by Canada over the years that there are some of them that could be considered as even not being national assets. It may be so, but by and large I think that Government expenditures

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for the development of this country are national assets irrespective of whether in the books of accounts some profits are shown.

Q. It is a possibility, yes. But you have no method of comparing them with the alternative developmental expenditure that could be made if that one had not been made? I mean, there is no test of the usefulness?

A. The only test, I would think, on a particular piece of property would be to separate it and keep an account of whatever revenue there might be, if there is revenue, or whatever purpose it serves. There might not be revenue, but it may nevertheless serve a good purpose.

Q. It may, yes.

A. And against that set the cost and draw a balance, and I do not think it would do you very much good.

Q. No, no; the difference between us is this: I am prepared to agree with you that it may be useful. I think you go further and say it is useful?

A. I think the things which I refer to, sir, are useful, yes, very useful.

THE CHAIRMAN: Q. The things you refer to in the brief -- the Quebec Bridge, the Prince Edward Island Ferry, the post offices and the Welland Canal -- those are the things which you say of course are useful?

A. Yes, sir.

MR O'DONNELL: And the Canadian National Railways.

COMMISSIONER ANGUS: And the money invested in the Canadian National Railways.

THE WITNESS: Yes, I think you can extend that to the Canadian National Railways, and find many parts of our railway quite useful in the over-all economy of Canada.

MR O'DONNELL: Q. Part of the over-all assets of

the country and its development?

A. Very much so.

Q. Then will you turn to page 32 of the brief, Mr. Cooper. There you have Table No.2, where you show the results of operation for the period 1932 to 1939. Would you tell the Commissioners why you made the cut-off with respect to this table at the year 1939?

A. Simply because these were the pre-war years, and most of our comparisons in recent years have been with the year 1939. In the war years, of course, our traffic increased tremendously. The average annual revenue shown in Table No.3 on page 33 was \$397 million, compared with \$177 million in the pre-war years as shown on Table 2.

Q. The figure on page 33 in table No.3 is the last figure in the first column, under the heading "Gross Revenues", \$397,016,596?

A. That is our average annual revenue in that nine-year period, whereas in the previous eight-year period our average annual revenues were \$177 million.

Q. That is shown by the comparable figure on Table 2, page 32?

A. Yes.

COMMISSIONER INNIS: Q. What is the explanation of the steady decline in fixed charges? Does that mean converting securities at maturity?

A. Yes, Mr. Commissioner; from their peak, which was in 1932, we have reduced our fixed charges by refundings at lower interest rates, and of course during the war years we did use our surplus earnings to reduce the principal of the debt itself.

Q. How much farther can you go in terms of lowering the interest rate?

QA. Well, sir, we had an issue last year, we called

it October 1st. It was an issue of \$57 million 5 per cent bonds, and we substituted for it an issue with a 2-7/8 coupon. There was an issue which fell due I think it was February 1, 1950, where the interest rate was reduced from 5 per cent to 2-7/8 per cent. Where there is an opportunity, either at the maturing of an issue or by calling an issue if the terms permit, we do not miss an opportunity to cut down our interest rates, and we have cut down our interest rates. They are down further in 1949 than they were in 1948. In 1948 they were 3.39, and in 1949 I think they are 3.09.

THE CHAIRMAN: Mr. O'Donnell, we will adjourn now.

COMMISSIONER INNIS: Q. Are you coming to the end of your manoeuverability?

A. Sir?

Q. Are you coming to the end of your manoeuverability?

A. To a large extent, yes.

---The Commission adjourned at 1.00 p.m., to meet again at 2:45 p.m.

Ottawa, Ontario,
March 20, 1950.

AFTERNOON SESSION

MR. T. H. COOPER, recalled:

EXAMINATION BY MR. HUGH E. O'DONNELL, K.C., cont'd.

THE CHAIRMAN: Very well, Mr. O'Donnell.

MR. O'DONNELL: Q. May it please the Commission:
I think when we left off we had just been speaking of
Table No. 2 on page 32 of Exhibit 214.

I would like now to direct your attention,
Mr. Cooper, to page 36, Table 4, which shows the results
in the 26-year period from 1923 to 1948.

I take it that Table 4 is merely a grouping of
data which is in Tables 1, 2 and 3, which we previously
referred to, and that the averages are there worked out
at page 36?

A. That is so.

Q. Now, in what respect do these figures differ from
the figures which we find in Table 10 on page 52?

A. Table 4 on page 36 shows the amount of net income
available to pay fixed charges; whereas Table 10, on
page 52, shows the net income available for interest.

Q. Fixed charges as distinguished from interest
charges?

A. Yes, sir.

Q. Yes?

A. The terms of reference call for a report on the
advisability of establishing the fixed charges of the
company on a basis comparable to other major railways.

Therefore Table 4 shows the amount of net
income available to pay fixed charges; how much the fixed
charges amounted to, and the resulting deficit.

On the other hand, we very often speak of net

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income available to pay interest, and what the interest charges are. Therefore Table 10 gives such information.

Of course, the result, that is, the end result, is the same, whichever way it is stated.

Q. Going back to Table 4 on page 36, this says, does it not, that in the 26-year period from 1923 to 1948, the average annual gross revenues of the Canadian National Railways were \$281,912,408?

A. Yes.

Q. And it also shows that the average net income which was available to pay fixed charges was \$30,336,712?

A. Yes.

Q. That is the last figure under the column entitled "Net Income Available to Pay Fixed Charges"; and it also shows that the fixed charges averaged, during that 26-year period, \$50,328,929?

A. Yes.

Q. And then, in the last column, the last figure shows that your over-all, your average annual deficit since amalgamation was practically \$20 millions?

A. Yes, in those 26 years, 1923 to 1948.

Q. What conclusion do you draw from that table and the data on it?

A. It is clear that it has regard, taking into account the good years with the bad years, the fixed charge burden has been greatly in excess of the earning power of the railway. No other conclusion can be drawn from these figures. On the average we have earned \$30,000,000 a year, our fixed charges were \$50,000,000 a year, or \$20,000,000 in excess of the break-even point.

Measuring it with the break-even point, of course, provides no return on the equity capital, nor

1881

The first of these is the fact that the population of the United States has increased from 23 million in 1800 to 63 million in 1880. This increase has been the result of a number of causes, the most important of which are the following:

1. The discovery of gold in California in 1848, which led to a large influx of people from all over the world.

2. The discovery of gold in Colorado in 1859, which led to a large influx of people from all over the world.

3. The discovery of gold in Nevada in 1859, which led to a large influx of people from all over the world.

4. The discovery of gold in Idaho in 1860, which led to a large influx of people from all over the world.

5. The discovery of gold in Montana in 1864, which led to a large influx of people from all over the world.

6. The discovery of gold in Wyoming in 1869, which led to a large influx of people from all over the world.

7. The discovery of gold in Utah in 1871, which led to a large influx of people from all over the world.

8. The discovery of gold in Arizona in 1876, which led to a large influx of people from all over the world.

9. The discovery of gold in New Mexico in 1880, which led to a large influx of people from all over the world.

10. The discovery of gold in Texas in 1881, which led to a large influx of people from all over the world.

does it give us anything for additions and betterments. We should have something for additions and betterments.

Much addition and betterment expenditure is unremunerative. We should not be compelled to borrow every cent spent on capital account.

Prudent management will endeavour to finance betterments from net earnings or depreciation funds limiting recourse to new capital for plant expansion.

Railways generally are placing greater reliance upon internal sources for the funds needed for replacements and improvements.

In announcing the decision of the Board of Transport Commissioners in the 30 per cent freight rate case the Chief Commissioner said at page 27 of the judgment:

"I think that a railway is entitled to a reasonable surplus over and above fixed charges and dividends. A railway company, as in the case of other enterprises, should have something in addition to 'come and go on', to provide for contingencies and to help equalize the result of poor years with good years. And to have something, if necessity arises, to put back into its railway operation undertaking for the improvement of the services which it is required to furnish. That is apart from major capital requirements. This is how the Board viewed the matter in earlier decisions." That is the end of the quotation.

Our pension costs have increased tremendously. In 1923 they were \$652,974. In 1949 they were \$11,562,547.

The adoption of depreciation accounting for Canadian lines' rolling stock has increased our expenses. The depreciation charge in our 1949 accounts was

\$17,361,000.

There is nothing in the results shown in Table No. 4 in respect of the Newfoundland Railway which we took over April 1, 1949.

I think it is a reasonable position to take that an adjustment based simply on the past earning record and which merely meets the break-even point would not be satisfactory.

COMMISSIONER INNIS: Q. Why do you say that railroads are dependent to an increasing extent on internal capital? Is it because they cannot get capital from outside?

A. That could be a reason, sir. Nevertheless, they have -- and I speak more particularly of the railroads in the United States -- have been looking to surplus earnings and depreciation funds to finance their routine additions and betterments; and it is only where the railway has expanded, that they should have recourse to outside funds. Perhaps I should say they think they ^{should} have recourse to outside funds.

In the case of the Canadian National, ever since 1923 we have had to borrow every cent we spent on capital expenditure, and we had to pay interest charges on it. I do not know of any other railroad anywhere that has met conditions of that sort.

MR. O'DONNELL: Q. Ordinary business concerns expect, do they not, to have a little left at the end of the year with which they could make ordinary improvements -- not to the extent of expanding the plant facilities, but for additions and betterment maintenance?

A. I think that could be taken for granted.

COMMISSIONER INNIS: Q. What do you think the situation is with respect to security markets?

A. I think there has been a tendency in the last several years, certainly so far as equity capital is concerned, for the railways -- they simply could not go into that market at all.

MR. O'DONNELL: Q. Would you now turn to page 35 of the brief where there is a short statement showing the effect on the operating results of the changes in the price level of 1948 compared with that of 1939?

Now, if your 1949 accounts are available, perhaps you could bring that statement up to date?

A. Yes. Our 1949 figures are available.

The additional revenue in 1949 due to increase since 1939 in freight rates, passenger fares, telegraph tolls, and mail pay was \$101,107,200.

The additional costs due to increases in wage rates was \$113,304,000, and the additional costs due to increases in material prices was \$67,222,000.

So that on the one hand we had additional revenues of \$101,000,000 and on the other additional costs of \$180,000,000 due to the change in the price level. The imbalance which we had to absorb in 1949 was 79 millions.

Q. Now, speaking of 1949, could you furnish the figures for that year in a manner similar to the manner in which they are shown in Table No. 3 on page 33? That is, the gross revenues, the net revenues, the net income available to pay fixed charges, the fixed charges, and the net income or deficit?

A. Your question concerns the year 1949?

Q. Yes.

A. The gross revenue in 1949 was \$500,723,386. The net revenue was \$22,221,726.

The net income available to pay fixed charges

was \$6,588,869.

The fixed charges were \$48,631,896; and the deficit, therefore, was \$42,043,027.

Q. Now, you have a statement in your hands, I take it, from which you have been reading those figures and I would ask you to be good enough to produce it as Exhibit No. 228. It is entitled, "Result of Operations - 1923-1949." It is, nevertheless, similar to Table 3 and the others, 1, 2, 3 and 4, I think.

EXHIBIT 228: Filed by : Result of Operations,
Mr. O'Donnell: 1923-1949.

MR. O'DONNELL: Q. And that gives the 27-year average, does it not?

A. Yes.

Q. In a form which is similar to Table 4, which is at page 36 of the brief?

A. Yes.

Q. Possibly you could read the figures for the 27-year average into the record, and it might be that the Commission might like to jot them down in Table 4 at page 36, where it appears.

A. The 27-year average.

THE CHAIRMAN: Which column?

MR. O'DONNELL: On Table 4 Mr. Cooper will give the 27-year average, and it may be the Commission would just like to add the figures.

MR. O'DONNELL: Q. The gross revenue average for the 27-year period was?

A. \$290,016,518.

Q. Not too fast, now. And the net revenues were?

A. \$36,458,097.

Q. And the income available to pay fixed charges?

A. \$29,457,162.

Q. And the fixed charges?

A. \$50,266,076.

Q. And the net income or deficit?

A. \$20,808,914.

Q. That is a deficit; and then from what we now see or know of your 1949 operations, the situation is worse than it was when you prepared Table 4?

A. Yes. In 1949 we went further into the red, notwithstanding that for the first time in our history our gross revenues exceeded \$500 millions.

Q. Now, I would ask you to turn to another section of the brief, and that is the section which deals with statistical data as distinct from what you have termed historical data which we have been reviewing; commencing at page 41.

Would you please, in subsection (b) in the main brief, under the heading of "Statistical Data" -- I suppose I should first ask you if there is anything further you want to say concerning the historical data?

A. I do not think it can be too strongly emphasized that the basic causes for our financial difficulties are those set out on page 40 as follows:

"(a) being required to assume all the interest charges of the bankrupt predecessor railway companies, which amounted to \$35,623,415 per annum, and against which there were no net earnings available from operation;

(b) being required to assume the interest charges on the capital expenditures made subsequent to 1922 on the Intercolonial, National Transcontinental and other Crown owned railways. Such interest is estimated to amount to \$4,746,000 per annum. Prior to 1923 the interest on the capital expenditures of

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such Crown owned railways was charged against Consolidated Revenue Account in Public Accounts.

The relief under the 1937 Capital Revision Act did not reduce the fixed charges referred to in (a) and (b) above."

On top of these disabilities, which go back to 1923, is the more recent serious imbalance between increased revenues and increased costs, due to the change in price level, which imbalance cost us \$79 millions last year, that is, in 1949.

COMMISSIONER ANGUS: Q. Do you expect that part of your difficulty will be met by increased freight rates?

A. I would hope so, sir.

Q. Have you, so to speak, a standard as to how much should be made from that source, and how much by reducing the fixed charges?

A. In my opinion, the difference between increased costs and increased revenues resulting from rate increases is to be met very substantially by changes in freight rates rather than by an adjustment of fixed charges.

MR. SMITH: We find it very difficult to hear Mr. Cooper.

THE WITNESS: I do not think that redress for the imbalance should be looked for to the fixed charge situation as much as it should be looked for, let us say, to the Board of Transport Commissioners.

MR. O'DONNELL: Q. By way of a rate increase?

A. Yes, sir.

Q. In other words, that \$79 million you have just been speaking of of imbalance, that results solely from changes in operating costs, or rather the fact that

operating costs increased more rapidly than rate increases?

A. That is so; and while I think that some part of that imbalance could be expected to be met out of additional business, nevertheless I feel that the --

THE CHAIRMAN: What did you say?

MR. O'DONNELL: He said "additional business".

THE WITNESS: I feel that the additional business which we enjoy --

MR. O'DONNELL: Q. Nevertheless, what?

A. I think that the figures do disclose that there is something coming to the railways yet by way of increased freight rates.

COMMISSIONER ANGUS: Q. From out of your own system, without bringing the other railways into the picture; would you have any measure of that?

A. I feel that in a year in which the gross earnings of the Canadian National exceeded \$500 million, we should have a fairly respectable surplus. In any year prior to the war, when our gross earnings exceeded \$300 million, we should pay our fixed charges. Yet, in 1949, with \$500 million of revenue, we were in the red to the extent of \$42 million.

Q. And one should bear in mind in saying that that your additional revenue since 1939 has merely totalled \$101 million, whereas your additional costs have totalled \$180 million?

A. Yes.

Q. And that results in an imbalance of \$79 million?

A. I think, perhaps, it should be mentioned that those are the figures for 1949.

Now, that situation has been corrected to some extent. In 1949 we had an 8 per cent increase which went into effect on October 11, so that, in that year, we only

had two months and twenty-one days, and it amounted, in round figures, to \$3 million; whereas, if we had had the 8 per cent increase in effect from the first of the year, we would have had approximately an additional \$9 million of revenue.

Then, sometime this week, the 8 per cent will become 16 per cent and again, if that had been in effect for the full year of 1949, our 1949 showing would have been improved to the extent of about \$15 million additional, so there has been a correction in part of this imbalance that I have spoken about.

I do not want to leave any wrong impression in your minds that it is quite as great now as it was when these figures were compiled.

(Page 18596 follows)

COMMISSIONER ANGUS: You are more or less inclined to treat 1939 as the standard year?

A. There was not much change in price level until the war.

MR. O'DONNELL: Not necessarily the standard year, but take the year from which the increase in cost of operation began. Take the figure before the curve began to rise. Now, is there anything else you would like to say before we go on to this statistical data?

A. I don't think so.

MR. MacPHERSON: There were a number of other increases in 1949 that should be taken into account, passenger and international rates.

MR. O'DONNELL: In Mr. Cooper's figures all increases are taken into account, and despite the fact that credit is given for them, there is still that imbalance of \$79 million in round figures.

MR. MacPHERSON: But Mr. Cooper has pointed out that the 8% was from last October only, but there were other things, passenger increases, international rates.

MR. O'DONNELL: Then, Mr. Cooper, would you clear that up to Mr. MacPherson's satisfaction?

A. I think if we come to that further statement - -

MR. O'DONNELL: We have a statement, Mr. MacPherson, which I think will show the situation.

MR. EVANS: As a matter of fact the amount of the increase to the Canadian Pacific of these adjustments appears in the Board's Judgment at page 17 in this last rate case, and the net result of increases in deductions by adjusting 1949 revenues for the C.P.R. amounted to \$734,000.

MR. O'DONNELL: Q. Now then, if you go to Table 5 on page 41, (we have already had some discussion concerning this) that shows the investment expenditures of the Canadian National during the years 1923-1947?

A. Yes.

Q. And the figures are broken down prior to and subsequent to December 31, 1931?

A. Yes.

Q. Now, from what you said before, I take it that they were so broken down by you in order that the record could be taken up from where the Duff Commission left off?

A. Yes.

Q. Incidentally, can you tell the Commission the page of the Duff Report on which these figures are referred to?

A. Page 19 of the Duff Report shows the capital expenditures for Canadian National, 1923-1931 to be \$456,345,456, and that is the figure in the first column in Table 5 on page 41.

Q. \$456,345,456 then, the last figure?

A. Yes.

Q. And that agree with the figure on page 19 of the Duff Report under the heading "Canadian National capital expenditures for the period 1923-1931"?

A. Yes.

Q. Now, is there anything you would like to call attention to with respect to that?

A. Well, it is thought in some quarters that the capital expenditures on the Canadian National since amalgamation have been extravagant, but reduced to a per mile basis our expenditure averaged \$1,071. per annum,

whereas the corresponding figure for the Class I Roads was \$1,224 per annum as shown on page 42.

Q. That is at the top of the page, the first two sentences there. Are those the figures you refer to?

A. It is in the second paragraph.

Q. Yes, the two sentences in that paragraph. Now, while we are on that page, 42, you likewise show how those expenditures were financed, don't you?

A. Yes.

Q. Have you any comments to make concerning that?

A. I don't think so.

Q. The financing is broken down there into long term debt, depreciation accruals and so on as set out in detail on page 42?

A. Yes.

Q. Now, will you please turn then to the next page of the Brief, which is page 43, Table 6, and can you tell the Commission why you submit a comparison between the Canadian National Railways and the United States Class I roads regarding investment in road property and equipment?

A. Well, again I wish to show how the costs per mile of road for the Canadian National compare with the U.S. Class I roads. Our costs have averaged \$88,769 per mile, whereas the Class I roads have averaged \$127,564 per mile.

Q. That is what those figures would show when worked on the average cost per mile?

A. Yes.

Q. All right. Your own is about 1/3 less than the Class I United States roads?

A. Yes.

Q. And based on that information and what you previously told the Commission regarding the expenditures which have been made since amalgamation, does it support the idea that your costs are excessive in comparison with those of the United States roads?

A. No, it does not.

Q. Now, can you tell the Commission how your similar costs compare with the Canadian Pacific?

A. I am not in a very good position to give Canadian Pacific figures, and I must say I dislike doing so; but based on some of the evidence before the Board of Transport Commissioners in the 30 Per cent Case, I have computed that their average cost per mile in 1945 was \$86,031 as compared with \$88,105 for the Canadian National.

Q. Now, would you be good enough to indicate to the Commission what evidence in the 30 Per cent Case you refer to when you make the computation which you have just made. I take it it is a formal exhibit filed in that Case, Exhibit 128, and the accompanying Exhibit entitled "Investment in Road and Equipment". Possibly you might be good enough to produce copies of those?

THE CHAIRMAN: This is in the Exhibit?

MR. O'DONNELL: Yes, my lord. Q. Will you please produce as Exhibit 229 the statement which is entitled "Investment in Road and Equipment, Canadian Pacific Railway" and which had the further heading "Exhibit 121 in the 30 Per cent Increase in Freight Rates Case".

A. 128.

Q. 128, and as Exhibit 230 in this record the statement which was filed as Exhibit 128 in the 30 Per cent Case, being entitled: "Canadian Pacific Railway,

Reconciliation of Investment in Railway Property (Exhibit 13)
with Items Shown in Published Balance Sheet at December 31,
1945."

...EXHIBIT 229... filed by : Statement entitled
Mr. O'Donnell : "Investment in Road
: and Equipment, C.P.R."
: filed as Exhibit 128
: in the 30 Per cent Case.

...EXHIBIT 230... filed by : Statement entitled
Mr. O'Donnell : "C.P.R., Reconciliation
: of Investment in Rail-
: way Property (Exhibit
: 13) with Items Shown
: in Published Balance
: Sheet at December 31,
: 1945."

COMMISSIONER ANGUS: Are these figures likely to
be affected very much by the question of whether the mileage
owned is increasing or decreasing? I mean, do they include
new construction costs or anything of that kind?

A. When they are broken down to a per mile of road
basis I don't think it makes very much difference.

MR. O'DONNELL: Q. And the document which is
now Exhibit 229, Mr. Cooper, shows that the Canadian
Pacific average per mile of road in 1945 was \$86,031, as
against the Canadian National \$88,105.

THE CHAIRMAN: Pardon me a moment, what is
this last Exhibit, what number?

MR. O'DONNELL: 229, my lord.

THE CHAIRMAN: Well, this Exhibit 128 - -

MR. O'DONNELL: That is a copy of Exhibit 128
which was filed in the 30 Per cent Case, and in this
present record it is Exhibit 230 and it accompanies in this

present record 229. The two documents are read together, and I might, for the information of the Commission, say that reference to those Exhibits and that information can be found in Volume XXX at page 3130.

MR. FRAWLEY: This would be as of December 31, 1945?

MR. O'DONNELL: That is right.

MR. MacPHERSON: And this was a base of course which was in dispute and had not been accepted - -

MR. O'DONNELL: In any event for the purpose of comparison so far as Canadian National and Canadian Pacific figures for comparable dates go, we are putting it before the Commission for their consideration.

MR. FRAWLEY: That is before Newfoundland.

MR. O'DONNELL: Before Newfoundland. I would like to refer again, Mr. Cooper, to Exhibit 220, that is the letter addressed to the Right Honourable Arthur Meighen, then Prime Minister of Canada, by Sir Joseph Flavelle.

COMMISSIONER INNIS: Before you do that, what is the \$1,000,383,368 on Exhibit 190, I think it is, of the C.P.R.? Net Railway Property Investment?

MR. EVANS: I think it does not appear in that.

MR. O'DONNELL: I think that is a different computation. You refer to this document, Exhibit 190, Dr. Innis?

COMMISSIONER INNIS: Yes.

MR. EVANS: That is a net after deduction for depreciation.

COMMISSIONER INNIS: I see.

MR. O'DONNELL: This is a different figure.

MR. EVANS: It is a gross figure.

COMMISSIONER INNIS: It is comparable to the \$1,000,383,368, that is to say after those items have been taken out?

MR. EVANS: At the moment I would not want to say it is comparable, but I do know one is gross and the other is net, whether they include the same thing .

MR. O'DONNELL: They are made on two different bases, I think, Dr. Innis, and all we have done here is to take a copy of 128 from the 30 Per cent Case and accompany that with the reconciliation statement which was filed in connection with it, and have made the comparison - Mr. Cooper made the comparison that he speaks of .

Q. Mr. Cooper, will you turn then to the letter which was filed as Exhibit 220 and make such reference as you intended to make concerning that subject?

A. Sir Joseph Flavelle made his own comparison of costs per road of the National System and those of the Canadian Pacific and he said this:-

"I attach memorandum "A" giving summary of mileage, investment, capitalization, gross and net earnings, fixed charges, operating ratios and revenue statistics of the railways entering into the National System, as well as the Canadian Pacific Railway. From this statement you will observe the total investment in the railways in the National System, including the Grand Trunk Railway is, \$1,652,107,965 for 19,433 miles of road owned, being an

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average cost of \$85,000 per mile in contrast
to a cost of \$83,117 per mile for the
Canadian Pacific".

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... ..

MR O'DONNELL: I might say that that extract is to be found in Exhibit 220 at page 13, that is the top of about the sixth or seventh page.

THE WITNESS: Continuing the quotation, he added: "Both Systems have considerable double track mileage."

What I have been trying to do here was to attempt to find out whether the Canadian National costs are excessive, and I took the Class I roads and found that our costs per mile of road were about one third less than theirs. Then I turned to the Canadian Pacific and I did the best I could. I do not claim my figures are a hundred per cent correct, but the evidence that I have produced, which I think is well supported by the figures that Sir Joseph Flavelle worked out for himself in 1921, proved to my satisfaction at any rate that Canadian National costs are only slightly different from those of the Canadian Pacific, and any thought that Canadian National construction costs are excessive I think is not well founded.

MR O'DONNELL: Q. Now will you turn to page 46 of the main brief, Table 7, which shows the fixed charge debt of the Canadian National, the Canadian Pacific and the United States roads for the period from 1922 to 1947. Will you tell the Commission why you stopped at the year 1947?

A. When the statement was made 1947 was the latest year for which we could get the figures for the United States railways, and, as it was a comparative statement, I did not see any point in extending our figures unless there were comparatives available; but I can add the 1948 figures for the Canadian National and the Canadian Pacific -- this is to Table No. 7 -- if you wish.

THE CHAIRMAN: Haven't you done that in your Exhibit 217?

MR O'DONNELL: I think not this particular one, my lord.

THE CHAIRMAN: I thought Exhibit 217 provided somewhere---

MR O'DONNELL: 217 is the Annual Report.

THE CHAIRMAN: Doesn't it give the figures for 1948?

MR O'DONNELL: Oh, yes, it does. Mr. Cooper says he can give those of the Canadian National and the Canadian Pacific. As far as the Canadian National and the Canadian Pacific are concerned, Mr. Cooper has them. However, I would presume if the Commission wishes them it is a comparatively simple matter to get them.

Q. Now can you tell the Commission where you got the figures for the United States roads, Mr. Cooper?

A. They were taken from a publication of statistics in November 1948 by the Association of American Railroads.

Q. And you have that publication here, and I would ask you to produce it as Exhibit 231.

Unfortunately, my lord, we have only one copy for the record.

COMMISSIONER INNIS: Q. What does this mean? All the Class I railroads or all railroads?

A. This particular statistic, sir, is for all railroads in the United States.

Q. Class I and otherwise?

A. Yes, sir.

THE CHAIRMAN: What is it?

MR O'DONNELL: It is entitled, my lord, "Railroad Transportation and Statistical Record, 1911 to 1947, published by the Association of American Railroads, Bureau of Railway Economics, November 1948," and I have asked Mr. Cooper to produce---

THE CHAIRMAN: What two years did you say, beginning and ending?

MR O'DONNELL: 1911 to 1947. I have asked Mr. Cooper to produce it as Exhibit 231.

---EXHIBIT 231: Railroad Transportation -- A Statistical Record, 1911 to 1947, published by Assn. of American Railroads, Bureau of Railway Economics, November 1948.

MR O'DONNELL: Q. Now would you please indicate, Mr. Cooper---

A. The figures that we used are shown in the second column on page 3.

Q. The second column on page 3, under the heading "Net Capitalization", and there are three columns under that heading, the first being "Capital Stock", the second "Funded Debt", which is the column that you used, and then the total of the two?

A. That is right.

MR FRAWLEY: Don't you think you could procure some more of those from the A.A.R.?

MR O'DONNELL: Well, we could try. We could ask them to be good enough to give you a copy if they are available. I do not know whether they are available.

MR FRAWLEY: You belong to that union.

THE WITNESS: We made an inquiry from the Association, and they told us they had no more spare copies.

MR O'DONNELL: Well, I have one copy, my lord, and if Mr. Frawley thinks he would like to use it I would be glad to let him have it.

COMMISSIONER ANGUS: Q. Are all these figures relative to both rail and non-rail assets of the companies?

A. For the Canadian National, yes.

Q. And for the Canadian Pacific?

A. Well, the figures refer, I think, to the fixed

charge debt. Now, I have not attempted to---

Q. Not apportioned?

A. No.

Q. And the United States railroads?

A. They would be their total funded debt irrespective of how the proceeds were used.

COMMISSIONER INNIS: Q. How do you explain the decline? Has that been conversion or---

A. We did refer to that, Mr. Commissioner, somewhere in our brief.

MR O'DONNELL: The decline in the Canadian National?

MR INNIS: No; the decline in the United States roads' fixed charges. There is quite a sharp decline from 1937 to 1947.

THE WITNESS: On page 57 of Exhibit 214, paragraph 6---

COMMISSIONER ANGUS: It speaks of involuntary reductions.

MR O'DONNELL: There were a considerable number of reorganizations, I think, Dr. Innis, during part of that period.

THE CHAIRMAN: This is 1931, most of the involuntary reductions. The change I notice is from about 1938.

MR O'DONNELL: Well, they have had a lot of rate increases in the meantime, and they may have been paying off some of their outstanding obligations, I think. We will come to that a little later.

THE CHAIRMAN: These involuntary reductions in capital structure, is that the effect of bankruptcy or receivership?

MR O'DONNELL: They had a special procedure down there, my lord. There were so many of these roads that

had to be reorganized that they had a special procedure. I think section 35(a) was the section of the Act that was involved. I intend, as a matter of fact, to place before the Commission the results with respect to quite a number of those reorganizstions.

Q. Now, Mr. Cooper, you have explained where you got the information for the United States roads which appears in Table 7 on page 46. Would you be good enough to tell the Commission where you obtained the information set out on that page for the Canadian Pacific Railway Company?

A. The figures for the Canadian Pacific were taken, sir, from this publication by the Dominion Bureau of Statistics entitled "Canadian Pacific Railway Company, 1923 to 1948".

Q. Would you be good enough to produce that document as Exhibit 232?

THE CHAIRMAN: How do you describe it?

MR O'DONNELL: It is the Dominion Bureau of Statistics publication entitled "Canadian Pacific Railway Company, 1923-48." It is for the same period, for the comparable period, since amalgamation of the Canadian National.

--EXHIBIT 232: Publication of Dom. Bureau of Statistics entitled "Canadian Pacific Railway Company, 1923-48."

Q. MR O'DONNELL: Q. Will you please indicate to the Commission, Mr. Cooper, where in Exhibit 232 you found the figures which you have used in connection with Table 7 for the Canadian Pacific Railway?

A. Page 5; the figures are a combination of the figures appearing in the third and fourth columns.

Q. The third column being entitled "Perpetual 4% Consolidated Debenture Stock", and the fourth column being entitled "Bonds, Notes and Note Certificates"?

A. Yes.

MR O'DONNELL: Incidentally, the Commission will see on examination of those two columns 3 and 4 on page 5 of Exhibit 232 that the figures are the same as set out on Exhibit 190 as used by the Canadian Pacific Railway.

Q. Now, where did the Canadian National figures come from, Mr. Cooper, which are set out in Table 7?

A. They came from our books of accounts, and they are also in agreement with the figures shown in the D.B.S. pamphlet, Exhibit 218, except that we have excluded the Government loans which were dealt with under the Capital Revision Act.

Q. Now will you please refer to Table 8, which is on page 49, and make such comments as you think pertinent concerning that Table 8, in the light of the statements which we find on page 50 of the submission, Exhibit 214?

A. What was your question, please?

Q. I just asked you if you would look at Table 8 on page 49, and then make such comments as you think appropriate in the light of the statements appearing at page 50 concerning Table 8?

A. Well, as shown on the top of page 50, Table No.8 shows how railway capitalization divides as between capital stock and funded debt, funded debt in the case of the Canadian National including Government loans for capital purposes. It shows that the Canadian National's proportion of total capital represented by funded debt dropped from 63.8 in 1932 to 62 per cent in 1947, whereas that for the United States railroads dropped from 62.6 to 54.2.

Q. On page 47 you refer to a statement which was issued by the Interstate Commerce Commission on April 30, 1948, showing that in the case of 35 reorganization plans approved by the Commission the long-term debt was reduced

from \$3,358,345,000 to \$1,812,788,000, a reduction of 46.02 per cent. Can you produce that statement?

A. Yes. I have just the one copy, Mr. O'Donnell.

Q. Would you please produce that, then, as Exhibit No.233?

THE CHAIRMAN: How do you describe it shortly?

MR O'DONNELL: That is a statement entitled "Changes in capitalization under plans of reorganization approved by the Commission for railroads in reorganization proceedings before the Commission as of April 30, 1948."

---EXHIBIT 233: Statement entitled "Changes in capitalization under plans of reorganization approved by the Commission for railroads in reorganization proceedings before the Commission as of April 30, 1948."

MR O'DONNELL: Q. Now will you make such comments or give such explanations as you think may be necessary concerning that document?

A. The comments are all made on page 47 of Exhibit 214. We say there:

"Railroads of the United States have followed a definite policy of reducing their funded debt and interest charges, particularly during the last 15 years. Since 1931 an almost continuous decline has taken place, caused by involuntary reductions in the capital structure of reorganized companies, and by voluntary reductions by solvent companies through the utilization of surplus earnings, depreciation accruals, sinking funds, etc. In a statement issued by the Interstate Commerce Commission as of April 30, 1948 it is shown that in the case of 35 reorganization plans approved by the Commission, the long term debt was reduced from \$3,358,345,000 to \$1,812,788,000 a reduction of 46.02%."

COMMISSIONER INNIS: Q. How much of that would be due to falling interest rates, or have you any idea?

A. This was a reduction in principal, sir.

Q. Yes, but if your securities matured, presumably---

A. Well, I could not say that. I can only speak of what the statement shows, and it gives the names of the companies, the amount of debt prior to reorganization, the amount of debt after reorganization, the reduction which took place, and the percentage which that reduction was to the debt before reorganization.

Q. But no indication as to the average interest rate over the period?

A. Not on that statement, no. We go on to say on our page 47:

"It is of course obvious that relief is not available to the Canadian National through receivership proceedings. It should be made equally clear that when the System was saddled with all the debts of its bankrupt predecessors not only was it sentenced to an indefinite term of recurring deficits, but in addition it was denied the opportunity to make surplus earnings from which to make reductions in its fixed charge debts. If it is sound policy to get debt and fixed charges down to manageable proportions, which other railways are doing, and which policy is fostered by the U. S. Government regulatory authority, then the Canadian National also should be given an arrangement under which this might possibly be done. As matters now stand the legacy of the past effectively bars its way."

Q. Haven't you an advantage in that the Government does support you and that you can get lower interest rates?

A. There is no question about that; that is a fact.

The availability of Government credit to the Canadian National is the only thing that has kept us going.

Q. But you do not know how that would compare with the American situation as to privately-owned lines?

A. As to our average rate of interest in comparison with theirs, for example?

Q. Yes.

A. No, I could not say that.

I wanted to correct, Mr. Commissioner, a figure I gave you this morning. I said in 1948 our average interest rate was 3.39 and that in 1949 it was 3.09. In 1949 the correct figure should be 3.3. It dropped nine-tenths of one per cent.

MR O'DONNELL: Q. Now, Mr. Cooper, I understand that you have a statement entitled "Ratio of Net Capitalization to Road and Equipment Investment", comparing the Canadian National Railway situation with that of all United States roads, and I would ask you to produce a copy of that as Exhibit 234.

THE CHAIRMAN: It is a comparative statement?

MR O'DONNELL: Yes, my lord.

---EXHIBIT 234: Statement entitled "Ratio of Net Capitalization to Road and Equipment Investment."

MR O'DONNELL: Q. I understand that that Exhibit 234 shows the figures from which the percentages were derived that are set out on page 49?

A. Yes.

Q. Now would you be good enough to comment on that exhibit?

A. The figures for the United States railways which appear in Table No.8, showing the ratio of net capitalization to investment in road and equipment, are derived from the figures which are set out on Exhibit No.234, which I

file, and this statement also indicates the source from which the figures have been taken.

Q. You refer there to the footnote on Exhibit 234, for instance:

"Figures for U.S. Roads, Road and Equipment, are taken from 'Railroad Finance' page 3, and Net Capitalization from 'Statistical Record, 1911-1947' page 3."

A. Yes.

COMMISSIONER INNIS: Is that shown in thousands, Mr. O'Donnell?

THE CHAIRMAN: They must show billions instead of millions, I think.

COMMISSIONER INNIS: That is, on Exhibit 234.

THE CHAIRMAN: On Exhibit 234 there should be a note of that.

THE WITNESS: Yes, these figures are in thousands.

THE CHAIRMAN: Q. These figures should be amended?

A. In thousands, yes.

MR O'DONNELL: There should have been a note on it.

COMMISSIONER INNIS: What does the fourth column in Table 8 mean?

MR O'DONNELL: "% of capitalization to investment"?

COMMISSIONER INNIS: Yes.

MR O'DONNELL: Q. Would you tell Dr. Innis how that is worked, Mr. Cooper?

A. It is the relationship which the total capital bears to the investment in road and equipment.

COMMISSIONER INNIS: Q. That is to say, the total capital is your equity capital and your funded debt?

A. Yes, sir.

COMMISSIONER ANGUS: Q. And it is related to rail investment without taking account of other assets?

A. Investment in road and equipment, yes. That is all

rail property.

MR O'DONNELL: I think if you turn to page 50, Dr. Innis, you will see there how it is worked, the comparisons which are made.

COMMISSIONER INNIS: You do not give the item investment.

MR O'DONNELL: Investment in road and equipment, we give that, page 50, the first item in that table -- investment in road and equipment. Then 4 is the total capitalization, and then there is the percentage, four to one.

COMMISSIONER INNIS: Oh, this is for one year.

MR O'DONNELL: Yes, that is all.

THE WITNESS: Well, table No.8 shows them for every year from 1932 down to 1947.

MR O'DONNELL: Q. Now, with respect to Exhibit 234 and the footnote, the source from which you obtained the information concerning the United States roads, you have reference there to a pamphlet, I take it, entitled "Railroad Finance". Have you got a copy of that which you might produce for the Commission?

A. Yes.

MR O'DONNELL: That will be Exhibit 235.

THE CHAIRMAN: What is it?

MR O'DONNELL: It is Exhibit 235, my lord, and it is entitled "Railroad Finance. A report by the Subcommittee on Finance, Railroad Committee for the Study of Transportation. Association of American Railroads 1947." Mr. Cooper informs me that the figures which are set out in Exhibit 234 are to be found in Table 2 on page 3 of that Exhibit 235.

---EXHIBIT 235: Pamphlet - Railroad Finance. A Report by the Subcommittee on Finance, Railroad Committee for the Study of Transportation. Assn. of American Railroads 1947.

Vol. 1, No. 1

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MR O'DONNELL: The other figures concerning net capitalization are taken from the statistical record, which we have already produced as Exhibit 231.

Q. Now, Mr. Cooper, will you please turn to Table 9 on page 51. You do not appear to have made any comments as yet on that particular table?

A. Our comments on Table No.9 are given in paragraphs 8, 9 and 10 on pages 57 and 58.

Q. Well, we will come to those later, then. Now, referring to Table 9 on page 51, I note that the statement shows the average revenue per passenger mile for the Canadian National as 2.2 cents, and that the rate for Class I roads is identical; is that an error or is it correct?

COMMISSIONER INNIS: Where is, that, Mr. O'Donnell?

MR O'DONNELL: On page 51, Dr. Innis. The revenue per passenger mile is the last figure at the extreme right of the page insofar as the United States Class I roads are concerned, and under the heading "Canadian National", it is the last column under that heading.

THE WITNESS: No, it is not an error; it is a coincidence.

THE CHAIRMAN: What are the figures you are questioning now?

MR O'DONNELL: The figures concerning revenue per passenger mile, and they appear to be the same for the Canadian National Railways as they are for United States Class I roads, that is, 2.202 cents, and I asked Mr. Cooper if that was correct or an error.

THE WITNESS: I said they are correct. It is just a coincidence that the statistics all come out at the end of a machine that way.

THE CHAIRMAN: It is just a coincidence?

MR O'DONNELL: Just a coincidence, he said. I was wondering; it seemed a bit strange that they should be exactly identical.

Q. Now, Mr. Cooper, have you any supporting data for the figures which are set out on Table 9 at page 51, those operating statistics which are there given?

A. I produce five exhibits which show the information from which these statistics are computed and---

MR O'DONNELL: I might just record them, Mr. Cooper, for the purpose of the record, then. The first will be Exhibit 236.

THE CHAIRMAN: What is it?

MR O'DONNELL: It is entitled "Earnings per mile of road operated."

---EXHIBIT 236: Statement - Earnings per mile of road operated.

MR O'DONNELL: The next one will be Exhibit 237, entitled "Revenue ton miles per mile of road operated."

---EXHIBIT 237: Statement - Revenue ton miles per mile of road operated.

MR O'DONNELL: The next one will be Exhibit 238, entitled "Revenue passenger miles per mile of road operated."

---EXHIBIT 238: Statement - Revenue Passenger miles per mile of road operated.

MR O'DONNELL: The next, Exhibit 239, freight revenue per ton mile.

---EXHIBIT 239: Statement - Freight revenue per ton mile.

MR O'DONNELL: The next, Exhibit 240, entitled "Revenue per passenger mile."

---EXHIBIT 240: Statement - Revenue per passenger mile.

MR O'DONNELL: Q. And all those five exhibits, Mr. Cooper, contain the information concerning the Canadian National Railways, the Canadian Pacific Railway and the United States Class I roads for the years 1923 through to

1947?

A. Yes.

Q. And have also set out at the bottom of each the averages for the period 1940 to 1947 and the average for 1923 right through to 1947 inclusive?

A. Yes.

Q. And you set out the source from which you have taken the information; in the footnote you set out the source from which you have taken the information?

A. Yes.

Q. In the case of the Canadian National and the Canadian Pacific the Dominion Bureau of Annual Statistics is used, and with respect to the United States Class I roads the information is taken from those two exhibits which were filed a few moments ago concerning that?

A. No. The---

THE CHAIRMAN: Mr. O'Donnell, just before we rise, we would like to know from you whether you intend, as far as your case is concerned, to meet the objection taken on page 109 of Part I of the Canadian Pacific brief, and again at page 26 of Part II of their brief, about your recapitalization and the possible dangers it might contain, and so on.

MR O'DONNELL: I think we will have to discuss that.

THE CHAIRMAN: Mr. Walker, I think, too, mentioned that. You intend to deal with that?

MR O'DONNELL: Oh, I think we will have to meet that and explain it, and give what information we can to help the Commission.

THE CHAIRMAN: I mean, do you want to meet it now? You are not going to wait till somebody raises it again?

MR O'DONNELL: Oh, no, I do not think so, my lord.

THE CHAIRMAN: It is a question of time with us, you see.

MR O'DONNELL: Well, if your lordship would like to raise it at any time---

THE CHAIRMAN: No, no; while your case is on, I mean.

MR O'DONNELL: Right.

(Recess)

(Page 18620 follows)

---Upon resuming.

MR. O'DONNELL: Q. These last five exhibits which we have produced, Exhibits 236, 237, 238, 239 and 240 contain the supporting data for the operating statistics which are set out on Table 9 at page 51 of the brief?

A. Yes.

Q. Turning, then, to another section of the brief, at page 53, we find the heading, "Comparison of Canadian National fixed charges with those of other major railways."

I think you there attempt to show how the Canadian National fixed charges compare with those of other major railways, in keeping with the express requirements of the reference under which the Commission is conducting this inquiry?

A. Yes.

Q. You first show there on page 53 the various accounts, do you not, the railway accounts, the classification of accounts which are known as and included in the term "fixed charges"?

A. Yes.

Q. Are those fixed charges there set forth in accordance with standard railroad accounting practice?

A. Yes.

Q. And out of the total fixed charges set out on page 53 of the Canadian National for the year 1948 of \$46,341,727, the interest on funded debt and the interest on government loans total \$44,830,000?

A. That is correct.

Q. And although the fixed charges in 1948 were some \$46,000,000 odd, as you have pointed out, I think, to the Commission, they averaged \$50.3 millions per year during the 26-year period from 1923 to 1948 as set out in Table 4 on page 36, I believe. That is correct, is

it not? I think that is what the table shows, Mr. Cooper?
That is correct?

A. Yes. \$50.3 million.

Q. How much were those fixed charges in 1949? Are you in a position to give that information at this time?

A. Yes. They were \$48,631,896.

Q. You say they were \$48,631,896 in 1949?

THE CHAIRMAN: That is for what year?

MR. O'DONNELL: For the year 1949.

MR. O'DONNELL: Q. Now, would you please turn to page 54 and refer to the figures there supplied for the year 1947. Can you say what percentage were your fixed charges to gross revenue in 1948? Have you got those figures?

A. For the Canadian National the ratio was 9.43.

Q. Perhaps the Commission might want to add this information. You say that for 1948 the Canadian National ratio was 9.43?

THE CHAIRMAN: The ratio?

MR. O'DONNELL: Yes.

THE CHAIRMAN: What about the ratio? What was it?

MR. O'DONNELL: 9.43.

MR. O'DONNELL: Q. Can you give that ratio for the Canadian Pacific?

A. It was 4.18.

Q. And for class 1 United States roads?

A. It was 4.4.

THE CHAIRMAN: What year is that for?

MR. O'DONNELL: For 1948, my lord.

MR. O'DONNELL: Q. Can you, just as a matter of interest, give the average for the period 1923 through to the end of 1948?

A. For the Canadian National it would be 17.85.

Mr. Cooper, in his

speech, he said that the

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Q. And for the Canadian Pacific?

A. For the Canadian Pacific, 9.49.

Q. And for the class 1 United States roads?

A. 10.56.

Q. On the basis you have just mentioned, the Canadian National ratio was twice that of either the Canadian Pacific or the class 1 roads?

A. Almost twice, yes.

Q. Now, you show at the top of page 54 similar percentages for the year 1947?

A. Yes.

Q. And that is for the one year?

A. Yes.

Q. And further down on the table you give the balance through for every year since 1923?

A. Yes.

Q. Are you in a position to give the Commission the comparable figures to those which are set out at the top of page 54 for the year 1948?

A. Yes.

Q. You might read them into the record.

A. Canadian National gross revenue \$491,269,950.

Fixed charges, \$46,341,727.

Q. And the ratio?

A. 9.43.

Q. Now, the Canadian Pacific?

A. \$380,005,826. That would be for the gross revenue.

Q. And the fixed charges?

A. The fixed charges, \$15,890,264.

Q. And the ratio?

A. 4.18.

Q. And for class 1 roads?

T. pallidus 7.8% (n = 90) *S. agilis* 1.6% (n = 18)

2. The number of total staff employed

1906. 1907. 1908. 1909. 1910.

. 3. 1. 6

Y

Young's Modulus of Steel, $E = 29,000,000$ psi.

[illegible]

A. Gross revenues, \$9,671,721,893.

Fixed charges, \$425,355,583.

Q. And the ratio?

A. The ratio, 4.4.

Q. And there at the top of page 54 you set out what class 1 roads comprise in the United States. They are all railroads with annual revenue above \$1,000,000.

Were you able to furnish the Commission with the figures of gross revenue and fixed charges from which the percentages that are set out at page 54 have been computed? Have you a statement showing the gross revenues and the fixed charges?

A. Yes.

Q. Then I shall ask you to produce as Exhibit 241 a statement entitled "Ratio of fixed charges to gross revenue, Canadian National-Canadian Pacific and United States class 1 roads.

That statement covers the years 1923 through to 1947 and it has at the bottom of it the averages worked out for the period 1923 to 1947, and a further average for the period of 1932 to 1947 in a footnote on the exhibit, giving the sources from which the data was obtained.

A. Yes.

<u>EXHIBIT 241:</u>	Filed by	:	Ratio of fixed
	Mr. O'Donnell:	:	charges to gross
		:	revenue C.N.-C.P.
		:	and United States
		:	class 1 roads.

MR. O'DONNELL: Q. Have you any comment you care to make concerning this Exhibit 241?

A. It shows the gross revenue and the fixed charges from which the percentages shown on page 54 were computed.

Q. Now, in the light of that exhibit and the ratios set out on page 54 and the other data which you have referred to, would you tell the Commission what your

1. The first thing I noticed when I stepped

out of the car was the cold air.

2. It was a sharp contrast to the

warmth of the car.

3. I had heard that the weather was bad,

but I wasn't prepared for this. The

rain was coming down in sheets.

4. I had to hurry to get to the hotel.

5. The rain was so heavy that I could

hardly see the road ahead of me.

6. I was so wet when I got to the hotel

that I had to change my clothes.

7. I

8. Then I went to the hotel and

found that the room was very nice.

9. I was so tired that I went to bed

and fell asleep.

10. The next morning I went to the

office and found that everything was

all right. I was so happy that I

went to the office and found that

everything was all right.

11.

12. I was so happy that I went to the

office and found that everything was

all right.

13. I was so happy that I went to the

office and found that everything was

all right.

14. I was so happy that I went to the

office and found that everything was

all right. I was so happy that I

went to the office and found that

everything was all right.

15. I was so happy that I went to the

general conclusion is as to the comparability of Canadian National fixed charges with those of other major railways?

A. I think the figures prove conclusively that measured as a percentage of gross revenue our fixed charges are about twice as heavy as those of the Canadian Pacific and the class 1 roads.

Q. Incidentally, with respect to class 1 roads, your statement sets out at page 54 the fact that class 1 railroads represent 99 per cent of all United States railroads and about 95 per cent by mileage?

A. They represent 99 per cent in terms of operating railway revenue, and they represent 95 per cent in terms of mileage.

When you speak of class 1 roads, you are really speaking of all the United States railroads as a group.

Q. Will you please turn to page 55 of the brief, at which page you show ratios for the Pennsylvania Railroad, the New York Central, the Southern Pacific, the Santa Fe, and the Union Pacific?

A. Yes.

Q. I take it you have used those five railroads as being the best comparatives with the Canadian National, or the most comparable to the Canadian National?

A. Yes. I would not see any point in making a comparison between a large railway and a small railway.

The Canadian National definitely is a large railway. In 1947 and again in 1948 and in 1949 only four railroads in North America had larger revenues than the Canadian National.

It seems to me that if you draw your comparisons with these large railways as well as with the Canadian Pacific and with the class 1 roads as a group, you are

using the best yardstick.

Q. I notice that the table on page 55 speaks of the year 1947. Are you in a position now to give the Commission the data for the year 1948, and if so, the Commission might wish to put an additional line across the page for the 1948 figure. Take first the Pennsylvania Railway.

A. 7.21.

Q. And the New York Central?

A. 5.46.

Q. And the Southern Pacific System?

A. 3.46.

Q. And the Santa Fe?

A. 1.63.

Q. And the Union Pacific?

A. 9.43.

Q. And the average as printed on page 55 is for the sixteen years, 1932 to 1947. Would you give the Commission the average for the seventeen years, 1932 to 1948, inclusive, in the instance of the Pennsylvania Railroad?

A. 12.38.

Q. 12.38?

A. Yes.

Q. And that is the 17-year average?

A. Yes.

Q. That is the 17 year average?

A. Yes.

Q. 12.38. New York Central?

A. 10.42.

Q. Southern Pacific?

A. 8.09.

Q. And the Santa Fe?

A. 4.15.

Q. And the Union Pacific?

A. 5.03.

Q. And the Canadian National?

A. 17.93.

Q. Now, if it would be of interest to the Commission, I think Mr. Cooper could, my lord, also give the figures for those five roads by gross revenues and fixed charges for the year 1948. If it would be of any assistance, Mr. Cooper could just read them over.

COMMISSIONER INNIS: Can you give them for the Canadian Pacific? I just wondered whether you could put in Canadian Pacific, just another figure for 1932.

MR. O'DONNELL: Yes, I suppose we could do that in another column. If it would be of any assistance Mr. Cooper might just read on the record at this point, rather than have your lordship and the members of the Commission take these figures, Mr. Cooper could give the figures for 1948 for the five American roads that are set out on page 55. Just read them on to the record in the same form, Mr. Cooper, that is, as to gross revenues, fixed charges and ratio.

A.

<u>Year 1948</u>	<u>Gross Revenues</u>	<u>Fixed Charges</u>	<u>Ratio</u>
Pennsylvania Railway	\$999,982,899	\$72,128,090	7.21
New York Central	779,860,755	42,573,258	5.46
Southern Pacific	587,462,083	20,332,526	3.46
Santa Fe	526,733,746	8,585,066	1.63
Union Pacific	437,583,132	6,328,507	1.45

Q. Now, as a matter of fact, I had overlooked this, my lord, but Mr. Cooper had prepared a statement which is entitled "Ratio of Fixed Charges to Gross Revenues, Five Major United States Roads," which gives gross revenues, fixed charges and ratio in each of the years from 1932 to 1947. I would ask to have that produced as Exhibit 242. Exhibit 242 gives the information for the five American roads and 241 gives the information for the Canadian National Railways and the Canadian Pacific Railway as well as for all U.S. Class I roads.

THE WITNESS: Yes.

COMMISSIONER INNIS: I think that covers my point, Mr. O'Donnell.

MR. O'DONNELL: Yes. I had overlooked that one at the time.

Q. Now, Mr. Cooper, at the bottom of page 55 of the Brief, or of Exhibit 214, I read the words:-

"It will be noted that on any basis of comparison the ratio for the Canadian National is completely out of line with other major railways in North America".

That is your opinion, is it not?

A. That is my opinion.

Q. Well now, that is based on this data which you have placed before the Commission?

A. Yes.

Q. And involves as much as you know personally concerning the situation.

A. Yes.

...EXHIBIT 242...filed by : Statement entitled:
Mr. O'Donnell : "Ratio of Fixed Charges
: to Gross Revenues,
: Five Major United
: States Railroads,".

Q. Now, Mr. Cooper, your evidence has been directed to the section of the Main Submission in which you have set out the historical and statistical data which you have felt the Commission should have before it in giving consideration to this matter of fixed charges?

A. Yes, that is what has been attempted, and in addition we have given the pertinent figures for other major railways to permit comparisons to be made.

MR. O'DONNELL: Now, I think, my lord, with the permission of the Commission, that before taking Mr. Cooper to another subject, it might at this point be well, by way of bringing to focus, so to speak, the various submissions and recommendations which have been put forward so far, for me to ask that the Commission permit me to read sub-section (d) of Chapter III of the Brief. It begins at page 56 and is entitled: "Summary and Recommendations as to Fixed Charges."

THE CHAIRMAN: All right.

MR. O'DONNELL: "(1) The tremendous value of the Canadian National in the overall national economy is obscured by its discouraging financial results, one of the principle underlying causes of which dates back to the commencement of operations in 1923 when the newly organized system was required to take over, without mitigation, the debts of its bankrupt predecessor corporations. The policy then adopted saddled the railway with interest charges of \$35,623,415 per annum"....That should be "(See page 18)" instead of 8....."notwithstanding that in the preceding five-year period the constituent railways had failed to earn their operating charges (before interest) by \$59,420,000."

(Page 18635 follows)

2. Prior to 1923 the capital expenditures on the Intercolonial, National Transcontinental, and other Crown-owned railways (generally referred to as Canadian Government Railways) had been financed by parliamentary appropriations, all interest charges being absorbed in public accounts. Subsequent to entrustment of these Canadian Government Railways to Canadian National Railway Company in January 1923 for management and operation their capital requirements have had to be financed by the Company, all interest charges being absorbed by it.
3. The 1937 Capital Revision Act dealt only with debts due to the Government. Advances for deficits were cancelled. Capital loans made prior to 1923 were converted into share capital. There were no capital loans from 1923 to 1931. Since 1932 interest has been paid on all capital loans.
4. In the period 1923-1931 the railway expended \$456,345,000 for investment purposes. This amount was financed by the sale of bonds to the public involving additional interest charges. By 1931 the annual interest charges of the Canadian National had reached a total of \$55,587,145. No portion of this was reduced by the Capital Revision Act of 1937.
5. The Canadian National's book investment in road and equipment per mile of line was \$88,769 at December 31st, 1947."

I might interject, the figure for 1948 is \$91,847.

"Canadian National figures are about 30% less than the average of U.S. Class I Roads and approximately equal to those of the Canadian Pacific. By comparison, Canadian National costs have not been excessive.

6. Railroads of the United States have followed a definite policy of reducing their funded debt and interest charges. By receivership proceedings and by the utilization of surplus earnings, etc. they reduced their capital debt by \$2,229,405,000 in the period 1923-1947."

I might interject ~~there~~ again that ^{for} the period 1923 to 1948 the figure is \$1,976,431,000.

"Similar avenues of relief were not open to the Canadian National which increased its capital debt during the period by \$451,055,000.

7. Against its investment in road and equipment the Canadian National must carry 64.1% in the form of interest bearing debt."

The 1948 figure is 64.9.

"By comparison the percentage for the Canadian Pacific is 31.6%" -- that is the 1945 figure -- "and for U. S. Class I Roads 32.1%."

THE CHAIRMAN: That also is 1945?

MR O'DONNELL: Yes, my lord.

"The burden for the Canadian National therefore is twice as heavy as it should be.

8. The average earnings per mile per annum has been about 9% less on the Canadian National than on the Canadian Pacific and about 51% less than on Class I Roads in the United States."

COMMISSIONER INNIS: Does not paragraph 8 suggest that a great many of these comparisons have relatively little meaning?

MR O'DONNELL: The average earnings per mile?

COMMISSIONER INNIS: Yes.

MR O'DONNELL: Well, I would not say without thinking more about it; I would not like to say offhand.

They are comparable types or classes of railways.

COMMISSIONER INNIS: Your average earnings are so much -- there is so much difference between American lines and Canadian lines that it must be very difficult to---

MR O'DONNELL: The American lines; but one must not forget they had very considerable increases, and had them in advance of the Canadian rates.

COMMISSIONER INNIS: I understand that; but still there is a great gap between the two types of roads.

MR O'DONNELL: No doubt about that. And I think that demonstrates that the imbalance here has been allowed to lag for a considerably longer period than it has over there. That is the way it strikes me offhand.

"9. The average freight traffic density on the Canadian National has been about 7% lighter than on the Canadian Pacific and about 50% lighter than on the said Class I Roads.

10. The average passenger traffic density has been about 17% lighter than on the Canadian Pacific and about 58% lighter than on Class I Roads.

11. The fixed charges of the Canadian National, measured as a percentage of gross revenue, are twice as heavy as those of the Canadian Pacific and those of the Class I Roads. When contrasted with other major railroads, the comparison generally is even less favourable to the Canadian National.

The question arises as to what a proper capitalization would be for the Canadian National.

The foregoing indicates that while the cost of the Canadian National Railway and of its rolling stock has not been excessive, nevertheless by comparison with other railways too large a proportion of such cost has been capitalized. This in itself is not important

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provided a sufficient portion of the total is equity capital. Difficulties begin when a disproportionate part of total capital is in the form of obligations carrying a fixed interest charge.

In the case of the Canadian National, as indicated above, its fixed interest debt, in relation to railway investment, is twice that of other comparable railways and its fixed charges themselves, measured as a percentage of gross revenues, are twice as heavy as those of such other railways.

It is submitted that, for the reasons above stated, it is beyond question that the fixed charges of the Canadian National are far in excess of its normal earning capacity.

From the foregoing it is concluded that while the total capitalization of the railway need not necessarily be reduced, an adjustment is needed as between the portion of total capital represented by interest charge debt and the portion represented by equity capital.

The portion to be represented by interest charge debt should in some considerable measure, be related to the amount of net earnings which may be expected under all conditions to be available for the payment of the interest thereon. It is one thing to talk about cost per mile, operating ratio, mortgage security, and so on, but if the earnings are not there to support the debt structure imposed on the property that structure is top heavy. The permissive capital carrying a fixed interest charge must be based on the demonstrated ability of a railway to earn such fixed interest.

The net earnings of the Canadian National available for the payment of interest have shown wide fluctuations over different periods. In 1933, although it covered

its operating expenses, after taxes and other income charges it had no net income available for the payment of interest. Ten years later in 1943, with war traffic at its peak, net earnings available for interest were \$85 millions. In 1948 they had dropped to \$11 millions. If these amounts were capitalized at the average interest rate (3.39%) the permissible fixed charge debt would be: in 1933 zero; in 1943 \$2,516 millions; and last year \$333 millions.

Fluctuations over longer periods are equally wide. For instance, based on the average annual net earnings available for the payment of interest in the seven pre-war years, 1933 to 1939, the permissive fixed charge debt would be only \$136 millions. For the seven war years 1940 to 1946, the figure would be \$1,791 millions.

In the 26 year period 1923 to 1948 the net earnings of the System available for the payment of interest averaged \$27,660,483 per annum, which, when capitalized (3.39%), equals \$816 millions. This amount of fixed charge debt cannot be used as a reasonable guide to the future without regard being given to changed conditions embracing increased costs of operation, including material prices and wages, higher freight rates, varying interest rates, and also to the potentialities of the future.

Railways are now faced with conditions quite unlike those which prevailed in the past. Current traffic volume is high but the expenses of moving it are excessive in relation to the existing tariffs of tolls. The position of labour today is quite unlike that of the past in respect of wage rates and working conditions including matters of jurisdiction or assign-

ment of work between different groups or classes. Obviously an adjustment is needed in rates and charges to compensate railways more equitably for the increased cost of the services they render but this is not a matter for full discussion in a consideration of proposals for a revision of the capital structure. It must be assumed that through other tribunals some equilibrium between costs and compensation will be brought about and thereafter maintained having regard to traffic volume. If this be so, it seems probable there will inevitably emerge the financial handicaps with which the System was burdened at its inception. During the war years these handicaps were overcome by unusually high traffic volume. In turn volume was overtaken by the imbalance between increased costs and increased compensation. Even if this imbalance is corrected, should traffic volume recede from its present high level, then it is the view of the Management that the debts taken over in 1923 will be found to be undischarged, still exacting interest, still obscuring the true value of the System, and entailing reflections upon the efficiency of its organization.

The uncertainties of the future are self-evident. Present traffic volume may decline but to what extent or when this will occur cannot be prophesied. Any substantial drop in traffic volume will be accompanied by a drastic decrease in net earnings. A reduction in revenue as a result of decline in traffic cannot be accompanied by an equal decrease in operating expenses as a considerable portion of expenses are not directly related to traffic volume. There is also an appreciable lag in readjustment to changed conditions. In addi-

tion it is anticipated that material prices will find a level substantially higher than those which prevailed in pre-war days. The future of railways is further beclouded by the extent to which competing forms of transportation will make greater inroads in the transportation field.

It is submitted as the first step to be taken that the capital structure of the Canadian National should be adjusted by converting the full amount of the Government loans into equity capital."

And I might say that that suggestion would still leave the matter of the debt in the hands of the public to be taken care of.

I have just another page and a half, my lord, to complete this, and I think it would be well to finish it.

THE CHAIRMAN: Yes, go on, Mr. O'Donnell.

MR O'DONNELL: "At the end of 1948 such loans amounted to \$760,494,825. The interest thereon accrued in that year was \$21,627,032. The principal amount of the said loans of \$760 millions odd may be set against the \$804 millions of debt which the System assumed at the end of 1922. Had receivership proceedings been resorted to, at that time, it is not unlikely that these loans would have been put on an equity or contingent interest basis. The said annual interest of \$21,627,032 may be compared with the average annual income deficit of approximately \$20 millions suffered by the System throughout its existence as the direct result of the arrangements made in 1922. As will be seen by reference to the data tabulated on page 11, cancellation of the interest obligation to the Government will not entirely solve the financial difficulties of the Canadian National in

My dear Mr. [Name],

I have the pleasure to acknowledge the receipt of your letter of the 11th inst. and in reply to inform you that the same has been forwarded to the proper authorities for their consideration.

I am, Sir, very respectfully,
Your obedient servant,
[Signature]

[Name]
[Address]

the event of decline in traffic.

If the Government's investment in the Canadian National were represented by capital stock instead of interest bearing loans the comparisons previously made herein would require restatement as follows:

	<u>C.N.R.</u> %	<u>C.P.R.</u> %	<u>U.S.Roads</u> %
Proportion of investment in road and equipment represented by capital securities 1945	103.8	70.0	58.1
Proportion of investment in road and equipment represented by funded debt 1945	29.1	31.6	32.1
Proportion of gross earnings required to pay fixed charges 1947	5.9	4.6	5.03."

I might just add to the last line, "Proportion of gross earnings required to pay fixed charges," the 1948 figures, which would in the case of the C.N.R. be 5.03, the C.P.R. 4.18, and U. S. Roads 4.40. That is already shown in one of the exhibits we filed.

"The large capitalization in relation to investment for the Canadian National is not important. It is not suggested that the investment itself should be written down. There is some advantage in continuing the record of Government investment in the System. If however, in the future, under mandatory accounting regulations, the Canadian National is required to adopt depreciation accounting on fixed property and the past accrued depreciation must be computed and set up in the accounts, undoubtedly a write down of the Government's equity would be necessary.

It will be noted that even on the restated basis the Canadian National ratio of fixed charges to gross revenues would be higher than those of other railways.

The adjustment proposed would not cost the

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Government any money. As the sole shareholder any gain or loss is for account of the Government. In the final analysis a fixed interest rate is meaningless since if there is a deficiency it must be provided by Government and likewise Government will take any surplus there may be after payment of interest on the publicly held debt. It is more a matter of removing from railway to public accounts the extent to which commercial considerations have been subordinated to considerations of broad national policy."

THE CHAIRMAN: Before we adjourn, in reference to a certain application made to us by counsel this morning, this has been agreed by the Commission: We shall continue with this present C.N.R. case, and after that take up the Crows Nest Pass case. That will leave outstanding then just the examination into the co-operation statute between the two railways and the final argument. After we finish the Crows Nest Pass case we shall adjourn for two weeks and three days, and then come back here and take up the co-operation statute and immediately afterwards the final argument, without any intermission between those two. That is understood, is it?

MR CARSON: That is on the understanding, my lord, that we utilize the three days---

THE CHAIRMAN: The reason why we are adding those three days is to allow you to utilize them for the purpose of your application before the Board.

---The Commission adjourned at 4.50 p.m., to meet again at 10:30 a.m. on Tuesday, March 21, 1950.

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